

Falkland Islands Company Limited

**Annual report and financial
statements**

Registered number 00074300

31 March 2017

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Company information

Directors

R Sawle (Chairman)
K Ironside
JG McManus
JL Foster
T Francis

Registered number

00074300

Bankers

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

Auditor

KPMG LLP
St Nicholas House
Park Row
Nottingham
NG1 6FQ

Registered office

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

Strategic report

Business review

In the Falklands, the lack of oil related demand fed through into weakened general demand for goods and services in the Islands and the absence of oil related corporate spending saw the contribution from the Falkland Islands Company Limited "FIC" property portfolio fall as premium corporate rental income was exchanged for local rentals at a 30% discount. The contribution from FIC was also adversely affected by the expansion and further modernisation of FIC's principal retail competitor, the Chandlery.

Despite increased local competition and the absence of the oil stimulus, together with the exceptionally poor squid catch at the start of the financial year, the decline in FIC's profitability was mitigated by cost savings in central administration, encouraging performances from FIC's housebuilder, Falklands Building Services, and Penguin Travel, combined with continued growth from insurance and consumer finance.

FIC Key Performance Indicators and Operational Drivers

Year ended 31 March	2013	2014	2015	2016	2017
Staff Numbers (FTE 31 March)	129	165	184	172	151
Capital Expenditure £'000	1,594	2,715	2,598	1,229	578
Retail Sales growth %	3.0%	-4.8%	3.0%	1.3%	-5.5%
Number of FIC rental properties	32	36	50*	50*	51*
Average occupancy during the year	88%	82%	93%	93%	81%
Number of vehicles sold	48	79	76	110	77
Number of 3 rd party houses sold	3	8	16	12	17
Illex squid catch in tonnes (000's)	58.2	188.0	364.0	235.2	30.1
Cruise ship passengers (000's)	29.6	39.5	50.0	56.5	55.6

Principal risks and uncertainties

FIC provides a wide range of services to the local economy in the Falkland Islands, including retailing, wholesaling and distribution, financial services, insurance services, vehicle sale and hire, shipping services, port services and construction, including house building.

The company provides support to vessels fishing in and around the Falklands' waters and the results for each year can be significantly affected by the squid catch each year.

Risks faced by the company include the following:

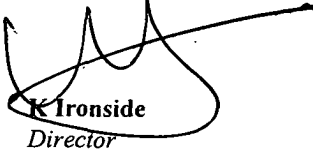
1. While considered by the Directors to be the market leader in a number of its business activities, FIC benefits from the commercial disciplines of competition from local entrepreneurs in many of the sectors in which it operates, however if not reviewed regularly competition risk, would lead to a loss of market share.
2. Technological failures, a sustained system failure would result in lost sales, and an inability to operate.
3. The delay or failure of oil extraction from the Falklands' waters;
4. Potential failure to manage the brand name. Proper brand management results in loyal customers, a failure to manage this would result in a loss of trust from our customers and loss of market share
5. Regulatory or legal compliance, failure to comply with the regulations in the Falklands, would result in reputational damage, potential fines and consequential litigation.
6. Salary inflations led by the Falklands government and general competition risk

Results and dividends

The profit for the year after taxation was £83,000 (2016: £105,000).

The directors do not recommend the payment of a final dividend. An interim dividend of £90,000 was paid during the prior year.

On behalf of the board


K Ironside
Director

Dated: 3 November 2017

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2017.

Activities

The principal activities of the company are distribution, shipping services, including port agency and general retailing in the Falkland Islands.

Donations

The company made charitable donations amounting to £11,000 (2016: £17,000).

Directors

The directors who served the company during the year and to the date of this report are as follows:

R Sawle
K Ironside
JG McManus
JL Foster
EL Rowland (resigned 2 May 2017)
T Francis (appointed 1 June 2017)

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

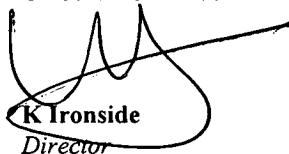
Directors' indemnity

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board


K Ironside
Director

Dated: 31 December 2017.....

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that 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 the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Independent auditor's report to the members of Falkland Islands Company Limited

We have audited the financial statements of Falkland Islands Company Limited for the year ended 31 March 2017 set out on pages 7 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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, and express an opinion on, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

Craig Parkin (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

St Nicholas House
Park Row
Nottingham
NG1 6FQ

Dated: 3 November 2017

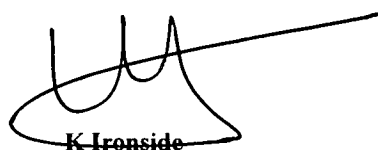
Profit and loss account and other comprehensive income
for the year ended 31 March 2017

	<i>Note</i>	2017 £000	2016 £000
Turnover	2	17,313	18,055
Cost of sales		(12,233)	(12,799)
Gross profit		<u>5,080</u>	<u>5,256</u>
Consumer finance income	3	236	206
Administrative expenses		(5,006)	(5,124)
Operating profit	4	<u>310</u>	<u>338</u>
Interest payable and similar charges	7	(93)	(107)
Profit on ordinary activities before taxation		<u>217</u>	<u>231</u>
Tax on profit on ordinary activities	8	(134)	(126)
Profit for the financial year		<u><u>83</u></u>	<u><u>105</u></u>
Other comprehensive income <i>Items that will not be reclassified to profit or loss</i>			
Re-measurement of the net defined benefit liability		(271)	159
Other comprehensive (expense) /income for the year		<u>(271)</u>	<u>159</u>
Total comprehensive (expense) / income for the year		<u><u>(188)</u></u>	<u><u>264</u></u>

Balance sheet
at 31 March 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	9	37	37
Tangible assets	10	7,469	7,682
Investment property	11	3,006	2,915
Investments in joint ventures	12	50	50
Hire purchase debtor receivable in more than one year	14	763	755
		11,325	11,439
Current assets			
Stocks	13	4,276	5,621
Debtors	14	3,514	2,810
Cash at bank and in hand		1,400	603
		9,190	9,034
Creditors: amounts falling due within one year	15	(16,502)	(16,657)
Net current liabilities		(7,312)	(7,623)
Total assets less current liabilities		4,013	3,816
Non-current liabilities			
Creditors due in more than one year	16	(33)	(33)
Deferred tax liability	17	(1,030)	(897)
Pension liability	18	(2,209)	(1,957)
Net assets		741	929
Capital and reserves			
Called up share capital	19	897	897
Profit and loss account		(156)	32
Shareholders' funds		741	929

These financial statements were approved by the board of directors on 3 November 2017 and were signed on its behalf by:


K. Ironside
Director

Company registered number: 00074300

Statement of changes in equity

	Called up share capital £000	Profit and loss account £000	Total Equity £000
Balance at 1 April 2015	897	(148)	749
Total comprehensive income for the year			
Profit for the year after tax	-	105	105
Other comprehensive income (see note 18)	-	159	159
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	264	264
	<hr/>	<hr/>	<hr/>
Transactions with owners, recorded directly in equity			
Equity-settled share based payment transactions	-	6	6
Dividends	-	(90)	(90)
	<hr/>	<hr/>	<hr/>
Total contributions by and distributions to owners	-	(84)	(84)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	897	32	929
	<hr/>	<hr/>	<hr/>
	Called up share capital £000	Profit and loss account £000	Total Equity £000
Balance at 1 April 2016	897	32	929
Total comprehensive income for the year			
Profit for the year after tax	-	83	83
Other comprehensive income (see note 18)	-	(271)	(271)
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	(188)	(188)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2017	897	(156)	741
	<hr/>	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

Falkland Islands Company Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK. All its trading activities take place in the Falkland Islands and during the year, the Company employed 159 staff in the Islands. FIC is a leading local company and pays employment taxes and corporation taxes exclusively in the Falkland Islands, to the local tax authorities in Stanley.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”). The amendments to FRS 101 (2014/15 Cycle) issued in July 2016 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, FIH group plc includes the Company in its consolidated financial statements. The consolidated financial statements of FIH group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from FIH group plc, Kenburgh Court, 133-137 South Street, Bishops Cleeve, Shropshire, CM23 3HX.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures.

- a Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of FIH group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 April 2014 for the purposes of the transition to FRS 101.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

Notes (continued)

1 Accounting policies (continued)

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £7,312,000 (2016: £7,623,000) which the directors believe to be appropriate for the following reasons. The company is dependent on support provided to it by FIH group plc, its ultimate parent undertaking. FIH group plc has provided the company with an undertaking that it will continue to support the company for at least twelve months from the date of approval of these financial statements. As with any company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements they have no reason to believe that it will not do so.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

1.4 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments

The investment in the jointly controlled entity is carried at cost less impairment.

Notes (continued)

1 Accounting policies (continued)

1.5. Non-derivative financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.6. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	2-5% per annum
Long leasehold land and buildings	2% per annum
Vehicles, plant and equipment	10-25% per annum

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7. Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

1.8. Investment property

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, as stated under property, plant and equipment above) and any impairment losses.

1.9. Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes *(continued)*

1 **Accounting policies** *(continued)*

1.10. Impairment excluding stocks, investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property, stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is 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 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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.11. Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company has one unfunded defined benefit pension scheme, which was closed to new members in 1988, and then to further accrual in 2007. The Company's net obligation in respect of this defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their services in prior periods, discounted to determine the present value of the future benefit. The Company determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability. The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising on the defined benefit scheme comprises actuarial gains and losses, and the effect of the asset ceiling (if any, excluding interest). The Company recognises these actuarial gains and losses immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of the plan have been changed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Notes (continued)

1 Accounting policies (continued)

1.11. Employee benefits (continued)

Share-based payment transactions

Share-based payment arrangements in which the Company receives goods or services as consideration for equity instruments in its parent company are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the Company grants rights to its parent's equity instruments to employees of its own subsidiaries, the Company accounts for these share-based payments as equity-settled. It recognises, in its individual financial statements, an expense in the profit and loss account, with a corresponding credit in equity.

1.12. Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.13. Turnover

Turnover represents the amounts invoiced to customers in the ordinary course of business for goods and services provided, including to fellow subsidiaries of FIH group plc, exclusive of value added tax.

Turnover from sale of goods is recognised at the point of sale or dispatch. Revenue from property sales is recognised on completion. Turnover also includes proceeds from property rental income, insurance commissions, revenues billed for shipping and agency activities and port services.

1.14. Expenses

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

1.15. Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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 on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the company's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2 Turnover

	2017 £000	2016 £000
<i>By geographical market:</i>		
Falkland Islands	17,313	18,055
	<u> </u>	<u> </u>

3 Consumer interest income

	2017 £000	2016 £000
Total interest receivable from finance leases and charge cards	236	206
	<u> </u>	<u> </u>

4 Expenses and auditor's remuneration

Included in profit/(loss) are the following:

	2017 £000	2016 £000
Restructuring costs expensed as incurred – included in administrative expenses	-	178
Direct operating expenses of investment property	265	142
	<u> </u>	<u> </u>

Auditor's remuneration:

	2017 £000	2016 £000
Audit of these financial statements	37	35
	<u> </u>	<u> </u>

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2017	2016
Falkland Islands	159	172

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	3,741	3,908
Social security costs	157	167
	<u>3,898</u>	<u>4,075</u>

6 Directors' remuneration

	2017 £000	2016 £000
Directors' remuneration	228	405
Amounts receivable under long term incentive schemes	20	20

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £124,000 (2016: £115,000). During the year, no share options were granted, and one director exercised 14,761 options for a total gain of £6,000.

JL Foster and EL Rowland are also directors of FIH group plc and are remunerated at a group level where their services are primarily directed.

	Number of directors	
	2017	2016
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	-	1
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	<u>2</u>	<u>3</u>

Notes (continued)

7 Interest payable and similar charges

	2017 £000	2016 £000
Unwind of discount on creditors	-	9
Bank interest payable	5	8
Interest expense on unfunded defined benefit pension scheme liability	88	90
	<hr/>	<hr/>
Total other interest payable and similar charges	93	107
	<hr/> <hr/>	<hr/> <hr/>

8 Taxation

	2017 £000	2016 £000
<i>Analysis of (credit) / charge in year</i>		
Falklands corporation tax credit	(1)	(20)
Adjustments in respect of prior periods	(4)	56
	<hr/>	<hr/>
Total current tax	(5)	36
<i>Deferred taxation:</i>		
Origination/reversal of timing differences (note 17)	121	83
Adjustments in respect of prior periods	12	-
Deferred taxation charge on pension scheme liability	6	7
	<hr/>	<hr/>
Total deferred tax	139	90
	<hr/> <hr/>	<hr/> <hr/>
Tax charge on profit on ordinary activities	134	126
	<hr/> <hr/>	<hr/> <hr/>
Deferred tax (charge) / income recognised in other comprehensive income		
	2017 £000	2016 £000
Re-measurements of defined benefit liability	(95)	56
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Taxation (continued)

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year	83	105
Total tax expense	134	126
	<hr/>	<hr/>
Profit excluding taxation	217	231
	<hr/>	<hr/>
Tax using the Falklands tax rate of 26% (2016: 26%)	56	60
Expenses not deductible for tax purposes	59	12
Depreciation in excess of capital allowances	21	42
Other timing differences	(10)	7
Share based payments not provided for	-	1
Unrelieved tax losses	-	(52)
Adjustments to tax charge in respect of prior periods	8	56
	<hr/>	<hr/>
Total tax expense	134	126
	<hr/>	<hr/>

9 Intangible assets

	Goodwill £000
Cost	
Balance at 1 April 2015, 1 April 2016 and 31 March 2017	37
	<hr/>

No impairment or amortisation has been recognised in these accounts, and therefore the net book value of the goodwill in the current and preceding year is £37,000, the same as the original value acquired.

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings £000	Long leasehold land and buildings £000	Vehicles, plant and equipment £000	Total £000
Cost				
Balance at 1 April 2015	5,333	914	5,136	11,383
Additions	942	5	294	1,241
Disposals	(50)	(19)	(1,451)	(1,520)
Balance at 31 March 2016	6,225	900	3,979	11,104
Additions	109	-	468	577
Transfer to Investment property	(170)	-	-	(170)
Disposals	-	-	(63)	(63)
Transfers to Falklands 4x4 stock	-	-	(202)	(202)
Balance at 31 March 2017	6,164	900	4,182	11,246
Depreciation and impairment				
Balance at 1 April 2015	741	155	3,243	4,139
Depreciation charge for the year	107	31	447	585
Disposals	(50)	(16)	(1,236)	(1,302)
Balance at 31 March 2016	798	170	2,454	3,422
Depreciation charge for the year	131	32	378	541
Transfer to Investment property	(7)	-	-	(7)
Transfers to Falklands 4x4 stock	-	-	(135)	(135)
Disposals	-	-	(44)	(44)
Balance at 31 March 2017	922	202	2,653	3,777
Net book value				
At 1 April 2015	4,592	759	1,893	7,244
At 1 April 2016	5,427	730	1,525	7,682
At 31 March 2017	5,242	698	1,529	7,469

Notes (continued)

11 Investment property

	Residential and commercial property £000	Freehold land £000	Total £000
Cost:			
At 1 April 2015	3,460	6	3,466
Additions in year	16	-	16
Disposals	(9)	-	(9)
	<hr/>	<hr/>	<hr/>
At 31 March 2016	3,467	6	3,473
Transfer from Freehold properties	132	38	170
	<hr/>	<hr/>	<hr/>
At 31 March 2017	3,599	44	3,643
	<hr/>	<hr/>	<hr/>
Accumulated depreciation:			
At 1 April 2016	490	-	490
Disposals	(3)	-	(3)
Charge for the year	71	-	71
	<hr/>	<hr/>	<hr/>
At 31 March 2016	558	-	558
Transfer from Freehold properties	7	-	7
Charge for the year	72	-	72
	<hr/>	<hr/>	<hr/>
At 31 March 2017	637	-	637
	<hr/>	<hr/>	<hr/>
Net book value:			
At 1 April 2015	2,970	6	2,976
	<hr/>	<hr/>	<hr/>
At 31 March 2016	2,909	6	2,915
	<hr/>	<hr/>	<hr/>
At 31 March 2017	2,962	44	3,006
	<hr/>	<hr/>	<hr/>

The investment properties comprise residential and commercial property held for rental in the Falkland Islands. Investment properties include 400 acres of land, including 70 acres of land in Stanley, of which 58 acres have planning permission. In addition, the Group has 300 acres of land at Fairy Cove. These investment properties held by FIC have been reviewed by a Director of FIC who is resident in the Falkland Islands and is considered to have the relevant knowledge and experience to undertake the valuation. At 31 March 2017 the fair value of this property portfolio was estimated at £7.2 million (2016: £7.0 million) including development land valued at £2.2 million (2016: £2.2 million).

During the year to 31 March 2017, the Group received rental income of £424,000 (2016: £565,000) on these properties and from the ten mobile homes rented to staff, which are held in long leasehold property. At 31 March 2017 and 2016 no investment properties were under construction.

Notes (continued)

12 Fixed asset investments

<i>Cost</i>	Shares in group undertakings £000
At 1 April 2015, 1 April 2016 and 31 March 2017	50

The Company holds one investment consisting of ordinary shares in South Atlantic Construction Company Limited, whose registered address is 56 John Street, Stanley, Falkland Islands and is jointly controlled with Trant Construction Limited.

13 Stocks

	2017 £000	2016 £000
Work in progress	958	777
Finished goods	3,318	4,844
	<u>4,276</u>	<u>5,621</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £9,598,000 (2016: £9,884,000).

14 Debtors

	2017 £000	2016 £000
Trade debtors	2,348	1,535
Corporation tax receivable	4	-
Other debtors	111	-
Hire purchase receivables	799	810
Prepayments and accrued income	252	465
	<u>3,514</u>	<u>2,810</u>
Due within one year	763	755
Due after more than one year		
	<u>4,277</u>	<u>3,565</u>

Notes (continued)

15 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Bank overdrafts	-	1,021
Trade creditors	4,585	4,029
Amounts owed to group undertakings	10,083	9,880
Taxation and social security	53	121
Other creditors	405	572
Loan due to joint venture	200	-
Corporation tax	-	3
Accruals and deferred income	1,176	1,031
	<u>16,502</u>	<u>16,657</u>

The amounts owed to group undertakings of £10,083,000 (2016: £9,880,000) are non-interest bearing and are repayable on demand.

16 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2017 £000	2016 £000
Creditors falling due in more than one year		
Shares classified as debt	33	33
	<u>33</u>	<u>33</u>

17 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Tangible fixed assets	-	-	1,159	1,026	1,159	1,026
Financial liabilities	(9)	(9)	-	-	(9)	(9)
Tax value of loss carry-forwards	(120)	(120)	-	-	(120)	(120)
	<u>(129)</u>	<u>(129)</u>	<u>1,159</u>	<u>1,026</u>	<u>1,030</u>	<u>897</u>
Tax (assets) / liabilities	(129)	(129)	1,159	1,026	1,030	897
Pension scheme (note 18)	(776)	(687)	-	-	(776)	(687)
	<u>(905)</u>	<u>(816)</u>	<u>1,159</u>	<u>1,026</u>	<u>254</u>	<u>210</u>
Net tax (assets) / liabilities after pension scheme	(905)	(816)	1,159	1,026	254	210

Notes (continued)

17 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

	1 April 2016 £000	Recognised in income £000	31 March 2017 £000
Tangible fixed assets	1,026	133	1,159
Financial liabilities	(9)	-	(9)
Tax value of loss carry-forwards utilised	(120)	-	(120)
	<u>897</u>	<u>133</u>	<u>1,030</u>

Movement in deferred tax during the prior year

	1 April 2015 £000	Recognised in income £000	31 March 2016 £000
Tangible fixed assets	891	135	1,026
Financial liabilities	(9)	-	(9)
Tax value of loss carry-forwards utilised	(68)	(52)	(120)
	<u>814</u>	<u>83</u>	<u>897</u>

18 Employee benefits

Falkland Islands Company Limited operates a defined benefit pension scheme for certain employees which is unfunded and was closed to new members in 1988. The scheme was closed to further accrual on 31 March 2007. Benefits are only payable at normal retirement age. Actuarial valuations are carried out at each year end.

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

	2017 £000	2016 £000
Total defined benefit liability	2,985	2,644
Deferred tax asset	(776)	(687)
Net pension scheme deficit	<u><u>2,209</u></u>	<u><u>1,957</u></u>

Notes (continued)

18 Employee benefits (continued)

Movements in net defined benefit liability

	Defined benefit obligation	
	2017	2016
	£000	£000
Balance at 1 April	2,644	2,884
Included in other comprehensive income		
Re-measurements loss/(gain) arising from:		
Change in actuarial financial assumptions	425	(189)
Actuarial Experience adjustment	(59)	(26)
Total included in other comprehensive income	366	(215)
Interest cost expense, included in profit and loss account	88	90
Benefits paid	(113)	(115)
Balance at 31 March	2,985	2,644

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2017	2016
Discount rate applied to scheme liabilities	3.4%	3.4%
Increases in deferment	2.3%	2.3%
Inflation assumption	3.1%	3.1%
Rate of increase in pensions in payment	3.0%	3.0%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.5 years (male), 24.6 years (female).
- Future retiree upon reaching 65 in 20 years: 24.7 years (male), 26.9 years (female).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased / (decreased) as a result of a change in the respective assumptions by one percent.

	2017	2016
	£000	£000
Discount rate +/- 0.1%	49	41
Inflation assumption +/- 0.1%	(19)	(17)
Life expectancy +/- one year	(136)	(111)

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 March 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Notes (continued)

18 Employee benefits (continued)

Funding

The Company expects to pay £113,000 in contributions to its defined benefit pensioners in the year ended 31 March 2018.

19 Capital and reserves

Share capital

	2017 £000	2016 £000
<i>Allotted, called up and fully paid</i>		
897,000 ordinary shares of £1 each	897	897
3,300 3.5% of redeemable preference shares of £10 each	33	33
	<hr/> 930	<hr/> 930
	<hr/> <hr/>	<hr/> <hr/>
Shares classified as liabilities	33	33
Shares classified in shareholders' funds	897	897
	<hr/> 930	<hr/> 930
	<hr/> <hr/>	<hr/> <hr/>

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.

Dividends

The following dividends were recognised during the period:

	2017 £000	2016 £000
Interim dividend	-	90
	<hr/>	<hr/>

At the balance sheet date cumulative preference dividends of £13,000 were not recognised (2016: £12,000).

20 Ultimate parent company and parent company of larger group

The immediate and ultimate parent company is FIH group plc, a company incorporated in Great Britain. A copy of the financial statements of FIH group plc, in which the results of Falkland Islands Company Limited are consolidated, can be obtained from FIH group plc, Kenburgh Court, 133-137 South Street, Bishop's Stortford, Hertfordshire CM23 3HX.

Notes *(continued)*

21 Accounting estimates and judgements

Key sources of estimation uncertainty

In order to prepare the financial statements, management and the Board make various judgments and estimates that can affect the amounts recognized in the financial statements for assets, liabilities, revenues and expenses as well as information in general, including issues with regard to contingent liabilities. The judgments and estimates discussed in this section are those deemed to be most important for an understanding of the financial statements, considering the level of significant estimations and uncertainty.

Impairment of non-current assets

The Company's property, plant and equipment and intangible assets, including goodwill, are stated at cost net of accumulated depreciation and any impairment losses. The assets are depreciated or amortized over their estimated useful lives to their estimated residual values. The useful lives and residual values of Group assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. Both the estimated useful life and the residual value are reviewed at least at each financial year-end.

The carrying amount of the Group's non-current assets is tested for impairment whenever events or changes in circumstances indicate that the carrying amount will not be recovered. If such analysis indicates an excessive carrying amount, the recoverable amount of the asset is estimated. The recoverable amount is the higher of the asset's fair value less selling costs, and its value in use, which is measured as the discounted future cash flows of the asset.

Taxes

Determining income tax provisions involves judgment on the tax treatment of certain transactions. There are some transactions and calculations for which the ultimate tax determination is uncertain at the time a liability must be recorded.

Defined Benefit pension 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. During the year ended 31 March 2017, 17 pensioners (2016: 18) received benefits from this scheme, and there are three deferred members at 31 March 2017 (2016: three). The weighted average duration of the expected benefit payments from the Scheme is around 16 years (2016: 16 years).

Actuarial reports for IAS 19 purposes as at 31 March 2013-2017 were prepared by a qualified independent actuary, Lane Clark and Peacock LLP. The present values of the scheme's liabilities are derived from cash flow projections over long periods and are thus inherently uncertain. 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.