avation PLC

ANNUAL REPORT 07

OUR FLEET
(as at October 1 2007)

Details	MSN 11488	MSN 11489
Date of Acquisition	15 November 2006	15 November 2006
Lessee	Skywest Airlines	Skywest Airlines
Operational Area	Western Australia, Northern Territory, Bali	Western Australia, Northern Territory, Bali

Details	MSN 11484	MSN 11373
Date of Acquisition	11 April 2007	31 July 2007
Lessee	Skywest Airlines	TUI AG (Jetair Fly)
Operational Area	Western Australia, Northern Territory, Bali	Belgium, Germany, France, Spain, Portugal

Details	MSN 11461	MSN 11326
Date of Acquisition	25 September 2007	28 September 2007
Lessee	Skywest Airlines (effective 26 September 2007)	Skywest Airlines (effective 28 September 2007)
Operational Area	Entering service, Australia, late October 2007	Entering service, Australia/Bali, November 2007

All aircraft presently owned are Fokker F-100 (Mk 28) passenger jet aircraft.

MSN denotes Manufacturers Serial Number

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CHAIRMAN'S STATEMENT

The operating results for the Company at this early stage of development are in line with expectations. The Company is in the process of rapidly growing its aircraft asset base in order to grow both its income base and to increase by number the airlines that lease its aircraft. The Company and its subsidiaries have announced their intention to procure additional aircraft and the Company has also, additionally, been successful in obtaining suitable credit lines.

For the last 7 months of the financial year ending 30th June the Company was in its infancy, with only two aircraft leased to an airline operator. Despite this fledgling status, the Company has achieved remarkable outcomes to see it move into the future as a viable participant in the aviation leasing industry. As at the date of making this Statement we have now deployed four aircraft on commercial leases and having completed the acquisition of, are currently finalising the deployment of two additional units which shall increase the Company's aircraft asset base. Furthermore, we have been successful in obtaining debt finance as well as equity finance.

A subsidiary, Capital Lease Aviation Plc, has secured, but not yet deployed, USD 23,000,000 in equity. It has also announced, but not yet deployed, a debt facility of a further USD 48,000,000. I would suggest that caution is exercised in reviewing these financial statements given the current expansion of scale that the Company and its subsidiaries are now experiencing.

The revenues for the period were £1,806,251. Profit before taxation was £779,399, net profit after tax was £547,585. Earnings per share were 3.01 pence. This result occurred from only 7 months' operations with only two leased aircraft and the trade of Avation.Net Inc.

The Company is involved with the commercial aviation industry and all manner of aviation related risks are experienced in addition to commercial risks; these are not limited to war, terrorism, downturns in the global aviation industry, events which impact access to lending on commercial debt terms, or specific risks to the types of aircraft owned.

The Company balance sheet is strong with a debt to equity ratio of 1.58, which has been improved by the recent equity raising in Capital Lease Aviation Plc. The Company achieved an impressive return on equity of 13.7% with a Net Profit Margin after tax of 30% for the financial period.

The outlook for the Company is anticipated to include the acquisition and leasing of more aircraft. Events in credit markets in recent weeks have not yet had any impact on the operational abilities of the Company. Targeted for growth will be support for the deployment of aircraft during the anticipated expansionary phase of Skywest Airlines Pty Ltd in Western Australia. Skywest, an existing lessee, has immediate growth plans as a result of mining activities and resource exploration in Western Australia and the Northern Territory of Australia.

Additional airlines in other territories will also be sought as customers.

The Company will attempt to grow its asset base significantly and expects to take on more risk and obtain more debt as it grows in asset base size.

I would like to thank you – the shareholders – for your continued support and assure you that your board is certainly working hard to achieve sustainable growth and profits on your behalf.

R J (Jeff) Chatfield
Singapore
15 October 2007

Each lessee maintains the aircraft under a strict and regulated long term maintenance program. This guarantees the optimum performance, safety and value of each aircraft.

avation PLC Comprising Avation.net Inc, Capital Lease Aviation PLC and F100 Pty Ltd.

Group Structure

AVATION PUBLIC LIMITED COMPANY
Co. No. 5872328

REGISTERED OFFICE:: 2 Stone Buildings, Lincolns Inn, London WC2A 3TH, United Kingdom

DATE OF INCORPORATION: England & Wales, 11 July 2006, entered on PLUS MARKET , UK on 7 November 2006

100%

F100 PTY LTD

REGISTERED OFFICE:
Level 1, St Georges Terrace
Perth
Western Australia, 6850

DATE OF INCORPORATION:
Australia, 15 November 2006

51.22%

CAPITAL LEASE AVIATION PLC

REGISTERED OFFICE:
Georgian House
63 Coleman Street
London EC2R 5BB

DATE OF INCORPORATION:
England & Wales, 6 June 2007

99.96%

AVATION.NET INC

REGISTERED OFFICE:
Corporation Trust Center
1209 Orange Street
Wilmington USA

DATE OF INCORPORATION:
Delaware, USA, 18 January 2000

The directors have pleasure in presenting their report and financial statements for the period to 30 June 2007.

Principal activities and business review

The principal activities of the group are the holding of investments and leasing of aircraft.

On 19 July 2006, the company acquired 99.96% of Avation.net Inc by way of the issue of new ordinary shares.

On 15 November 2006, the company incorporated a wholly owned subsidiary, F100 Pty Ltd in Australia. F100 Pty Ltd has commenced the business of leasing of aircraft to two airlines.

On 6 June 2007, the company incorporated a wholly owned subsidiary, Capital Lease Aviation Plc in the United Kingdom.

The principal risks and uncertainties affecting the Group's turnover are described in note 4.

The full business review can be found in the Chairman's statement on page 4.

Results and dividends

The consolidated income statement for the period is set out on page 11. No dividends will be distributed for the period ended 30 June 2007.

Directors and their interests

The directors who served the company during the period together with their interests (including family interests) in the shares of the company and other group companies at the beginning (or subsequent date of appointment) and end of the period, were as follows;

	Ordinary shares of 1p each	
	30 June 2007	**At date of appointment**
R. J. (Jeff) Chatfield (appointed 11 July 2006)	3,089,490	2,560,000
A. C. Baudinette (appointed 11 July 2006)	1	1
City Law Services Limited (appointed & resigned 11 July 2006)	-	-
J. Samuels (appointed & resigned 11 July 2006)	-	-

Equal Opportunities Policy

It is the group's policy to employ individuals with the necessary qualifications without regard to sex, marital status, race, creed, colour, nationality or religion. Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities.

The group recognises the great importance of the contribution made by all employees and aims to keep them informed of matters affecting them as employees and developments within the group. Communication and consultation is achieved by a variety of means both within individual companies or branches and on a group-wide basis.

Directors' Insurance

The group maintains insurance policies on behalf of all the directors against liability arising from negligence, breach of duty and breach of trust in relation to the group.

Creditors Payment Policy

The group's current policy concerning the payment of trade creditors is to:
• settle the terms of payment with suppliers when agreeing the terms of each transaction;
• ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
• pay in accordance with the company's contractual and other legal obligations.

On average, trade creditors at the year end represented 2 days' purchases.

Statement as to disclosure of information to auditors

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Kingston Smith LLP were appointed during the year and have indicated their willingness to continue in office and in accordance with the provisions of the Companies Act it is proposed that they be re-appointed auditors for the ensuing year.

On behalf of the board

R. Sinclair
Director

15th October 2007

Statement of Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period.

In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and prepare the financial statements on a going concern basis unless it is inappropriate to assume the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Shareholders of Avation PLC

We have audited the financial statements of Avation plc for the period ended 30 June 2007 which comprise of the Consolidated Income Statement, the Consolidated Balance Sheet, the Company Balance sheet, the Consolidated Cash Flow Statement, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 described in the statement of directors' responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK & Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is inconsistent with the audited financial statements. The other information comprises only of the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view in accordance with IFRS as adopted by the European Union, of the state of the group's and the company's affairs as at 30th June 2007 and of the group's profit for the period then ended;

- The financial statements have been properly prepared in accordance with the Companies Act 1985;

- The information given in the Report of the Directors is consistent with the financial statements.

Kingston Smith LLP

Kingston Smith LLP
Chartered Accountants and Registered Auditors
Devonshire House
60 Goswell Road
London
EC1M 7AD

15th October 2007

avation PLC

Comprising Avation.net INC, Capital Lease Aviation PLC and F100 Pty Ltd.

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS
for the period ended 30 June 2007

	Note	2007 £
Continuing operations		
Revenue	6	1,806,251
Cost of sales		(560,242)
Gross profit		1,246,009
Other operating income	7	53,457
Administrative expenses		(175,395)
Other operating expenses	8	(165,257)
Profit from operations	9	958,814
Finance income and expenses	11	(179,415)
Profit before taxation		779,399
Taxation	12	(231,814)
Profit after tax for continuing operations		547,585
Profit for the period from continuing operations		547,585
Attributable to the shareholders		547,585
Earnings per share	13	
- Basic		3.01 pence
- Fully Diluted		1.96 pence

CONSOLIDATED BALANCE SHEET
as at 30 June 2007

	Note	2007 £
ASSETS		
Current assets		
Cash and cash equivalents		828,345
Trade and other receivables	14	369,813
Inventories	15	697
Total current assets		1,198,855
Non-current assets		
Property, plant and equipment	18	9,473,546
Goodwill on consolidation	17	1,324,541
Total non-current assets		10,798,087
Total assets		11,996,942
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	19	192,323
Provision for Taxation		197,458
Loan and borrowings	20	985,890
Deferred income		121,198
Total current liabilities		1,496,869
Non-current liabilities:		
Trade and other payables	19	242,063
Loan and borrowings	20	5,319,577
Deferred tax liabilities	21	939,018
Total non-current liabilities		6,500,658
Capital and reserves:		
Share capital	22	191,142
Share premium		1,155,094
Assets revaluation reserve	24	2,130,503
Foreign currency translation reserve	24	(24,909)
Retained earnings		547,585
Net equity		3,999,415
Total liabilities and equity		11,996,942

Approved by the board on 15th October 2007

R J Chatfield
Director

COMPANY BALANCE SHEET
as at 30 June 2007

	Note	2007 £
ASSETS		
Current assets		
Cash and cash equivalents		30,982
Trade and other receivables	14	47,000
Total current assets		77,982
Non-current assets		
Investment in subsidiaries	16	1,440,286
Total non-current assets		1,440,286
Total assets		1,518,268
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	19	116,274
Total current liabilities		116,274
Capital and reserves:		
Share capital	24	191,142
Share premium		1,155,094
Retained earnings		55,758
Net equity		1,401,994
Total liabilities and equity		1,518,268

Approved by the board on 15th October 2007

R J Chatfield
Director

STATEMENTS OF CHANGES IN EQUITY

for the period ended 30 June 2007

	Note	Share Capital £	Share Premium £	Assets revaluation Reserve £	Foreign currency translation Reserve £	Retained earnings £	Total £
Group							
Balance at 11 July 2006 (date of incorporation)		-	-	-	-	-	-
Revaluation of property, plant and equipment	24	-	-	2,130,503	-	-	2,130,503
Foreign currency translation adjustment	24	-	-	-	(24,909)	-	(24,909)
Net income recognised directly in equity		-	-	2,130,503	(24,909)	-	2,105,594
Net profit for the financial period		-	-	-	-	547,585	547,585
Total recognised income		-	-	2,130,503	(24,909)	547,585	2,653,179
Increase in issued share capital	22	194,142	1,191,094	-	-	-	1,385,236
Share buyback	22	(3,000)	(36,000)	-	-	-	(39,000)
Balance at 30 June 2007		191,142	1,155,094	2,130,503	(24,909)	547,585	3,999,415

	Note	Share Capital £	Share Premium £	Retained earnings £	Total £
Company					
Balance at 11 July 2006 (date of incorporation)		-	-	-	-
Increase in issued share capital	22	194,142	1,191,094	-	1,385,236
Share buyback	22	(3,000)	(36,000)	-	(39,000)
Net profit for the financial period		-	-	55,758	55,758
Balance at 30 June 2007		191,142	1,155,094	55,758	1,401,994

	Period Ended 30 June 2007 £
Cash flows from operating activities:	
Profit before Taxation	779,399
Adjustments for:	
Depreciation expense	163,240
Interest expense	186,197
Interest income	(8,950)
Operating profit before working capital changes	1,119,886
Trade and other receivables	(369,813)
Inventories	(697)
Trade and other payables	434,387
Deferred income	121,198
Cash from operations	1,304,961
Interest paid	(186,197)
Interest received	8,950
Corporation tax paid	(34,356)
Net cash from operating activities	1,093,358
Cash flows from investing activities:	
Purchase of property, plant and equipment	(6,585,135)
Net cash used in investing activities	(6,585,135)
Cash flows from financing activities:	
Repayment of borrowings	(315,188)
Proceeds from borrowings	6,620,655
Net cash from financing activities	6,305,467
Net effect of exchange rate changes in consolidating subsidiaries	14,655
Net increase in cash	828,345
Cash and cash equivalent at beginning of financial period	-
Cash and cash equivalent at end of financial period	828,345

Cash and cash equivalents in the consolidated cash flow statement are not restricted in use and denominated in the following currencies:

	Period Ended 30 June 2007 £
Pounds Sterling	81,070
United States Dollars	722,649
Australian Dollars	24,502
Singapore Dollars	124
	828,345
Interest earning balances	745,917

The rate of interest for the cash on interest earning accounts is at 4.50% to 5.85% per annum. These approximate the weighted effective interest rate.

1 GENERAL

Avation plc is a public limited company incorporated in England and Wales under the Companies Act 1985 (Registration Number 5872328). The address of the registered office is given on page 5.

As disclosed in the Report of the Directors, the principal activity of the Company is that of an investment holding company.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union ("IFRS").

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION – The financial statements have been prepared in accordance with International Financial Reporting Standards including standards and interpretations issued by the International Accounting Standards Board, and have been prepared in accordance with the historical cost convention.

The financial statements are presented in Pounds Sterling, rounded to the nearest Pound.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The accounting policies set out below have been applied consistently throughout the financial period presented in these financial statements and the accounting policies have been applied consistently by the Company and its subsidiaries.

b) BASIS OF CONSOLIDATION - The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from those of the Group entities. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in the income statement.

(c) BUSINESS COMBINATIONS - The acquisition of subsidiaries is accounted for using purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of significant minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) GOODWILL - Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the income statement on disposal.

(e) SHORT-TERM INVESTMENTS – Investments held for short-term are stated at the lower of cost or market value determined on a portfolio basis.

(f) INVENTORIES – Inventories of consumable spare parts are stated at the lower of cost and net realisable value.

(g) PROPERTY, PLANT AND EQUIPMENT – Aircraft held for use in supply of rental services, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such aircraft is credited to the assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in income statement, in which case the increase is credited to profit and loss statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such aircraft is charged to the income statement to the extent that it exceeds the balance, if any, held in the assets revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued aircraft is charged to the income statement. On the subsequent sale or retirement of a revalued aircraft, the attributable revaluation surplus remaining in assets revaluation reserve is transferred directly to retained earnings.

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Aircraft	-	25 years
Furniture and equipment	-	3 years

Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(h) IMPAIRMENT OF ASSETS - At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(i) PROVISIONS - Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(j) SHARE OPTIONS – The directors have considered the potential charge for share-based payments and do not consider the amounts involved to be material for the period under review. When exercised, the exercise price is allocated between issued capital and share premium accordingly.

(k) LEASES – The Group leases aircraft under operating leases to related parties. Leases of aircraft where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in the income statement on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in the income statement over the lease term on the same basis as the lease income.

(l) REVENUE RECOGNITION – Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

(i) Rental income is recognised in the income statement on a straight line basis over the terms of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(ii) Sale of goods are recognised when goods are delivered and title has passed.

(iii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(iv) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(v) Licence fees received are recognised over the life of the licence agreement. Ongoing royalties/commissions pursuant to the licence agreement are recognised as earned.

(m) BORROWING COSTS - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(n) RETIREMENT BENEFIT COSTS – Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes) are charged as an expense when incurred.

(o) EMPLOYEE LEAVE ENTITLEMENT – Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet.

(p) TAXATION - Taxation expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit and loss statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(q) FOREIGN CURRENCIES - The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Pound Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in pound sterling using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(r) FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade receivables - Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Investments - Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in income statement for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment losses recognised in the income statement for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Cash and cash equivalents - Cash and cash equivalents comprise cash on hand and call deposits which are subject to an insignificant risk of changes in value.

(iv) Financial liabilities and equity - Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(v) Borrowings - Interest-bearing loans from banks and financial institutions are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

(vii) Trade payables - Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(viii) Equity instruments - Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4 FINANCIAL RISKS MANAGEMENT

The main risks arising from the Group's financial assets and liabilities are airline industry risks, credit risk, interest rate risk, foreign exchange risk and liquidity risks.

(i) **Airline Industry Risks**

The Group faces risks specific to the aviation sector, war, terrorism, equipment failure and risks specific to the aviation business. These exposures are managed through the equipment of the airlines that lease the companies assets to maintain insurance, adequate maintenance policies as well as requirement that lessees contribute to a maintenance reserve for the major maintenance on each aircraft.

(ii) **Credit risk**

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group.

The Group has no significant concentrations of credit risk. The Group has adopted relevant credit policy in extending credit terms to customers and in monitoring its credit terms.

The credit policy spelt out clearly the guidelines on extending credit terms to customers, including monitoring the process. This includes assessing customers' credit standing and periodic review of their financial status to determine the credit limits to be granted. The Company performs ongoing credit evaluation of its customers' financial condition and generally, requires no collateral from its customers.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial period in relation to each class of financial assets is the carrying amount of those assets as stated in the balance sheet.

(iii) **Interest rate risk**

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. Those exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

The interest rate and terms of repayment of financial assets and financial liabilities are disclosed in the respective notes to the financial statements.

(iv) **Foreign currency risk**

Foreign currency risk occurs as a result of the Group's transactions that are not denominated in its functional currencies. The Group's foreign currency exposures arose mainly from the exchange rate movements of the Pounds Sterling, Australian dollars, United States dollars and Singapore dollars. These exposures are managed primarily by using natural hedges that arise from offsetting assets and liabilities that are denominated in foreign currencies.

The Group does not utilise forward foreign currency contracts to hedge its exposure to specific currency risks.

(v) **Liquidity risk**

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Short-term funding is obtained from bank loan facilities.

(vi) **Fair value of financial assets and financial liabilities**

The fair values of financial assets and financial liabilities reported in the balance sheet approximate the carrying amount of those assets and liabilities.

5 RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the Company and Group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements. The balances are unsecured, interest-free and without fixed repayment terms.

(a) Compensation of key management personnel

Key management's remuneration includes fees, salary, bonus, commission and other emoluments (including benefits-in-kind) based on the cost incurred by the Company and the Group, and where the Company or Group did not incur any costs, the value of the benefits. The key management's remuneration is as follows:

	Group Period Ended 30 June 2007 £	Company Period Ended 30 June 2007 £
Key management of the Group:		
- Directors' fee	12,000	12,000
- Directors of the Company	50,203	-

The amount above includes remuneration in respect of the highest paid director as follows:

	Group Period Ended 30 June 2007 £
Aggregate emoluments	50,203
Company contributions to money purchase pension schemes	-
	50,203

No contributions were made on behalf of any directors to money purchase pension schemes.

(b) Significant related party transactions:

	Group Period Ended 30 June 2007 £	Company Period Ended 30 June 2007 £
Interest expense paid to a director of the company	7,768	-
Sales of goods to a related party	388,653	-
Rental income received from a related party	738,329	-
Maintenance rent received from a related party	422,571	-

6 REVENUE

	Group Period Ended 30 June 2007 £
Rental income	738,329
Maintenance rent	422,571
Sales of finished goods	643,287
Royalties and commission	2,064
	1,806,251

7 OTHER OPERATING INCOME

	Group Period Ended 30 June 2007 £
Incentive income	50,095
Foreign currency exchange adjustment gain	3,362
	53,457

8 OTHER OPERATING EXPENSES

	Group Period Ended 30 June 2007 £
Foreign currency exchange adjustment loss	2,017
Depreciation of property, plant and equipment	163,240
	165,257

9 PROFITS FROM OPERATIONS

	Group Period Ended 30 June 2007 £
Auditors' remuneration for audit services	16,831

10 STAFF COSTS

	Group Period Ended 30 June 2007 £
Staffs cost (excluding directors remuneration) during the period:	
Wages and salaries	-
Social security costs	-
	-

	Group Period Ended 30 June 2007 Number
Average number of persons employed	Nil

11 FINANCE INCOME AND EXPENSES

	Group Period Ended 30 June 2007 £
Interest income on bank deposits	(8,950)
Interest expense on secured borrowings	186,197
Amortisation	2,168
	179,415

12 TAXATION

	Group Period Ended 30 June 2007 £
Current tax expense - overseas	204,892
Deferred tax expense - overseas	26,922
	231,814

The standard rate of current tax for the period based on the UK standard rate of corporation tax is 30%. The current tax expense for the period is less than 30% for the reasons set out in the following reconciliation:

	Group Period Ended 30 June 2007 £
Profit before income tax	779,399
Tax calculated at tax rate of 30%	233,820
Effects of:	
Different tax rates of other countries	(2,006)
Total income tax expense	231,814

13 EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	Basic 30 June 2007 £	Diluted 30 June 2007 £
Net profit attributable to members of Avation plc	547,585	547,585
Weighted average number of ordinary shares	18,171,382	18,171,382
Adjustment for dilutive potential ordinary shares	-	9,750,000
Weighted average number of ordinary shares used to compute EPS	18,171,382	27,921,382

14 TRADE AND OTHER RECEIVABLES

	Group 30 June 2007 £	Company 30 June 2007 £
Subsidiaries	-	47,000
Related parties	11,007	-
Trade receivables	163,066	-
Other receivables	156,506	-
Prepayment	10,748	-
Deposits	27,451	-
Advances	1,035	-
	369,813	47,000

The amounts due from subsidiaries are unsecured, interest-free, without fixed repayment terms and payable on demand.

The average credit period generally granted to non-related trade receivables customers is 30 to 60 days.

The trade and other receivables are denominated in the following currencies:

	Group 30 June 2007 £	Company 30 June 2007 £
Pounds Sterling	-	47,000
United States Dollar	221,355	-
Australia Dollar	143,399	-
Singapore Dollar	5,059	-
	369,813	47,000

15 INVENTORIES

	Group 30 June 2007 £	Company 30 June 2007 £
Finished goods, at cost	697	-

16 INVESTMENT IN SUBSIDIARIES

	Company 30 June 2007 £
Unquoted equity shares, at cost	1,440,286

Name of company	Principal activities	Country of incorporation/ operations	Company's cost of investment	Group's effective equity interest
			30 Jun 2007 £	30 Jun 2007 %
The subsidiaries held directly by the company:				
Avation.net Inc. (a)	Procurement business	United States of America	1,390,181	99.96
Capital Lease Aviation Plc (b)	Leasing of aircraft	England & Wales	50,100	100.00
F100 Pty Ltd (c)	Leasing of aircraft	Australia	5	100.00

(a) Audited by Jasmine Chua & Associates, Singapore
(b) Audited by Kingston Smith LLP, London, UK
(c) Audited by Moore Stephens, Perth, Australia

Significant transactions with subsidiaries are as follows:

	Company Period Ended 30 June 2007 £
Management fee income received from subsidiary	47,000
Dividend income received from subsidiary	50,100

17 ACQUISITION OF SUBSIDIARIES

Subsidiary acquired	Principal activities	Date of acquisition	Proportion of shares acquired %	Cost of acquisition £
Avation.net Inc.	Procurement business	19 July 2006	99.96	1,390,181

Avation.net Inc.	**Book value** £	**Fair value adjustment** £	**Fair value on acquisition** £
Current assets:			
Cash and cash equivalent	107	-	107
Trade and other receivables	94,196	-	94,196
Inventories	5,716	-	5,716
Non-current assets:			
Property, plant and equipment	2,338	-	2,338
Current liabilities:			
Trade and other payables	(36,717)	-	(36,717)
	65,640	-	65,640
Goodwill on acquisition			1,324,541
Consideration - shares			1,390,181

On 19 July 2006, the Company issued 18,639,195 ordinary shares at 1p each with share premium of 6.2655p per ordinary share for the acquisition of 99.96% of Avation.net Inc.

The loss of Avation.net post acquisition for the 11 month period to June 2007 was £23,863.

18 PROPERTY, PLANT AND EQUIPMENT

Group	Aircraft £	Furniture and equipment £	Total £
Cost or valuation:			
At beginning of period	-	-	-
Additions	6,584,387	748	6,585,135
Acquisition of subsidiaries	-	3,099	3,099
Revaluation surplus on acquisitions	3,043,576	-	3,043,576
Currency realignment	-	(247)	(247)
At end of period	9,627,963	3,600	9,631,563
Representing:			
Cost	-	3,600	3,600
Valuation	9,627,963	-	9,627,963
	9,627,963	3,600	9,631,563
Accumulated depreciation:			
At beginning of period	-	-	-
Depreciation for the period	162,189	1,051	163,240
Acquisition of subsidiaries	-	760	760
Currency realignment	(5,884)	(99)	(5,983)
At end of period	156,305	1,712	158,017
Net book value:			
At beginning of period	-	-	-
At end of period	9,471,658	1,888	9,473,546

The Group's aircraft were revalued prior to 30 June 2007 by independent valuers, on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to an asset revaluation reserve in shareholders equity.

19 TRADE AND OTHER PAYABLES

Current	Group 30 June 2007 £	Company 30 June 2007 £
Subsidiaries	-	86,697
Related parties	50,253	-
Trade payables	15,491	-
Other payables	68,639	-
Accrued expenses	57,940	29,577
	192,323	**116,274**

	Group 30 June 2007 £	Company 30 June 2007 £
Non-current		
Other payables	242,063	-
	242,063	-

The trade and other payables are denominated in the following currencies:

Current	Group 30 June 2007 £	Company 30 June 2007 £
Pounds Sterling	28,211	116,274
United States Dollar	100,121	-
Australia Dollar	7,454	-
Singapore Dollar	56,537	-
	192,323	116,274

	Group 30 June 2007 £	Company 30 June 2007 £
Non-current		
United States Dollar	242,063	-

The average credit period taken to settle non-related party trade payables is approximately 60 days.

20 LOAN AND BORROWINGS

	Group 30 June 2007 £
Secured borrowing I	4,310,967
Secured borrowing I I	1,994,500
Total	6,305,467
Less : Non-current portion of secured borrowings	5,319,577
Current portion of secured borrowings	**985,890**

a) Secured borrowing

The borrowings are secured by fixed and floating charges over all aircraft purchased by the Company's subsidiary, F100 Pty Ltd and the secured borrowings are denominated in United States dollars.

b) Maturity of borrowings

The non-current borrowings have the following maturity:

	Group 30 June 2007 £
Later than one year and not later than five years	4,640,745
More than five years	678,832

c) Interest rates and year of maturity

	Group 30 June 2007	
	Nominal interest rate %	Year of maturity
Secured borrowing I	6.71%	2013
Secured borrowing I I	6.56%	2012

d) Carrying amount and fair values

The carrying amounts of current borrowings approximate their fair values. The carrying amounts and fair values of non-current borrowings are as follows:

	Group 30 June 2007	
	Face Value £	Carrying Value £
Secured borrowing I	5,171,355	4,310,967
Secured borrowing I I	2,368,799	1,994,500
Total	7,540,154	6,305,467

21 DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities are attributable to the following:

Group	Assets 30 June 2007 £	Liabilities 30 June 2007 £	Net 30 June 2007 £
Property, plant and equipment	-	945,842	945,842
Other items	(7,199)	375	(6,824)
Tax (assets) / liabilities	(7,199)	946,217	939,018
Tax	-	-	-
Net tax (assets) / liabilities	(7,199)	946,217	939,018

Movement in temporary differences during the period:

Group	Balance 11 July 2006 £	Recognised in profit or loss £	Recognised in equity £	Balance 30 June 2007 £
Property, plant and equipment	-	32,769	913,073	945,842
Other items	-	(6,824)	-	(6,824)
	-	25,945	913,073	939,018

22 SHARE CAPITAL

	Company 30 June 2007 £
Authorised: 100,000,000 ordinary shares of 1p each	1,000,000
Allotted, called up and fully paid: 19,114,197 ordinary shares of 1p each	191,142

On the date of incorporation, the Company issued 2 ordinary shares at 1p each for working capital purposes.

On 19 July 2006, the Company issued 18,639,195 ordinary shares at 1p each with share premium of 6.2655p per ordinary share for the acquisition of 99.96% of Avation.net Inc.

On 26 March 2007, the Company bought back and cancelled 300,000 ordinary shares at 13p each for the purpose of capital management.

On 5 June 2007, the Company issued 325,000 ordinary shares at 1p each with share premium of 3p per ordinary share due to the exercise of warrants.

On 15 June 2007, the Company issued 250,000 ordinary shares at 1p each with share premium of 3p per ordinary share due to the exercise of warrants.

On 27 June 2007, the Company issued 200,000 ordinary shares at 1p each with share premium of 3p per ordinary share due to the exercise of warrants.

23 SHARE-BASED PAYMENTS

Employee share scheme

The Group has an ownership-based compensation scheme for directors and senior management of the Group.

Each share warrant converts into one ordinary share of Avation Plc on exercise. No amounts are paid or are payable by the recipient on receipt of the warrant. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of warrants granted is approved by the shareholders at a previous annual general meeting. The number of warranted rewards to the directors and senior management of the Group against the extent of the Group's and individual's achievement against both qualitative and quantitative criteria from the following financial measures:

• Improvement in share price
• Improvement in net profit
• Improvement in return to shareholders

The following share-based payment arrangements were in existence during the current reporting period:

Warrant series Issued on	Balance at Beginning of year	Granted during the year	Exercised during the year	Expired/ Cancelled	Balance at end of year	Expiry Date	Exercise Price	Fair value at grant date
(1) 30 Oct 2006	-	7,325,000	-	-	7,325,000	29 Oct 2010	4 pence	0.3 pence
(2) 30 Oct 2006	-	1,500,000	(575,000)	-	925,000	6 Nov 2007	4 pence	0.2 pence
(3) 22 Dec 2006	-	1,000,000	-	-	1,000,000	6 Nov 2007	4 pence	0.1 pence
(4) 4 Jan 2007	-	500,000	-	-	500,000	3 Jan 2008	3.5 pence	0.1 pence
	-	10,325,000	(575,000)	-	9,750,000			

The weighted average fair value of the warrants granted during the financial year is 0.28 pence. Warrants were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on the management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past 1 year.

				Warrant series
Inputs into the model	**Series 1**	**Series 2**	**Series 3**	**Series 4**
Grant date share price	4 pence	4 pence	3.5 pence	3.5 pence
Exercise price	4 pence	4 pence	4 pence	3.5 pence
Expected volatility	15%	15%	15%	15%
Warrant life	1 year	0.67 year	1 year	0.5 year
Dividend yield	0%	0%	0%	0%

The Company issued a total of 9,825,000 warrants during the financial year at the then market price of 4 pence and 500,000 warrants at the then market price of 3.5 pence.

24 OTHER RESERVES

a) **Composition**	Group 30 June 2007 £	Company 30 June 2007 £
Asset revaluation reserve	2,130,503	-
Foreign currency translation reserve	(24,909)	-
	2,105,594	-

b) **Movement**	Note	Group 30 June 2007 £	Company 30 June 2007 £
i) Asset revaluation reserve			
Balance at 11 July 2006 (date of incorporation)		-	-
Revaluation gain on property, plant and equipment	18	3,043,576	-
Deferred tax on revaluation gain	21	(913,073)	-
		2,130,503	-
ii) Foreign currency translation reserve			
Net currency translation differences of financial statements of foreign subsidiaries		(24,909)	-
		(24,909)	-

25 OPERATING LEASES

a) Leases as Lessor

The Company's subsidiary, F100 Pty Ltd leases out its aircraft held under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	Group 30 June 2007 £
Within one year	1,407,462
In the second to fifth years inclusive	5,629,848
More than five years	1,624,571

b) Contingencies

The Company's subsidiary, F100 Pty Ltd, receives maintenance rent from the lease of its aircraft in addition to the base rent. Lessees may be entitled to be reimbursed for specific long term maintenance items ("maintenance rent activities") that they may incur during the term of the lease. The lessees must not be in default of the lease and must satisfy certain conditions before they can claim. Furthermore, the lessees must provide invoices and supporting documentation as satisfactory evidence to F100 Pty Ltd that the maintenance rent activity has been carried out necessarily, before such claims are allowed.

The amount of the claim for any one maintenance rent activity is limited to the total amount of the maintenance rent received for that specific maintenance rent activity to date under the lease for that aircraft.

The carrying out of each specific maintenance activity is dependant on the number of cycles and flying hours conducted by the aircraft.

Consequently, F100 Pty Ltd has a contingent liability which is conditional on the volume of cycles and flying hours of the aircraft, upon the actual cost of maintenance rent activity, the lessee making a valid claim with the required documents in the required time frame, and there being an unclaimed balance against the specific maintenance rent activity for that aircraft.

Any unclaimed balance that F100 Pty Ltd holds at the end of the lease is not refundable to the lessees.

As at 30 June 2007, F100 Pty Ltd had received £422,571 in maintenance rent.

The future claims against the maintenance reserves cannot be estimated with any reliability.

27 SEGMENT INFORMATION

a) Segment reporting policy

A segment is a distinguishable component of the Group within a particular economic environment (geographical segment) and to a particular industry (business segment) which is subject to risks and rewards that are different from those of other segments.

The primary format, business segments, is based on the Group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue and segment assets are based on the nature of the products or services provided by the Group, information for geographical segments is based on the geographical areas where the customers are located.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets and liabilities or income statements items that are not directly attributable to a segment or those that cannot be allocated on a reasonable basis. Common expenses were allocated based on revenue from the Group.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

b) Primary reporting segment – business segments

At 30 June 2007, the Group is organised into two main business segments:

i) Aircraft leasing; and
ii) Business procurement.

Other operations of the Group mainly comprise investment holding and television advertisement licensing service, neither of which constitutes a separate reportable segment. There is no inter-segment transaction recorded during the financial period.

Group **Financial year ended 30 June 2007**	**Aircraft leasing** £	**Business procurement** £	**Total** £
Revenue			
- External sales	1,160,900	645,351	1,806,251
- Other income			97,100
Total of all segments			1,903,351
Less : elimination			(97,100)
Consolidated Revenue			1,806,251

Group Financial year ended 30 June 2007	Aircraft leasing £	Business procurement £	Total £
Results			
Segment results	1,024,020	(23,863)	1,000,157
Finance income			8,950
Finance expense			(188,365)
Unallocated corporate expenses			(41,343)
Profit before taxation			779,399
Taxation			(231,814)
Profit after taxation			547,585
Other segment items			
Capital expenditure			
- property, plant and equipment	6,584,387	3,600	6,587,987
Depreciation	156,305	1,712	158,017

	Aircraft leasing £	Business procurement £	Total £
Segment assets	9,761,497	82,562	9,844,059
Unallocated assets			2,152,883
Consolidated total assets			11,996,942
Segment liabilities	455,901	70,108	526,009
Provisions of taxation			197,458
Loans and borrowings			6,305,466
Unallocated liabilities			968,594
Consolidated total liabilities			7,997,527

c) Second reporting segment – geographical segments

The following table provides an analysis of the revenues by geographical market, irrespective of the origin of the good:

Group Financial year ended 30 June 2007	Revenue £	Capital expenditure £	Total assets £
Australia	1,553,840	6,584,387	11,831,952
Singapore	6,786	3,600	83,920
Libya	59,883	-	-
Nigeria	182,796	-	-
Other	2,947	-	81,070
	1,806,252	6,587,987	11,996,942

28 CONTINGENT LIABILITIES

	Group 30 June 2007 £
Guarantees	6,137,000

The maximum estimated amount the Company could become liable is as shown above.

The company has guaranteed the loan of its subsidiary, F100 Pty Ltd.

29 CAPITAL COMMITTMENTS

	Group 30 June 2007 £
Estimated amounts committed for future capital expenditure but not provided for in the financial statements	2,446,000

30 COMPARATIVE FIGURES

The financial statements for 30 June 2007 cover the financial period from the date of incorporation (11 July 2006) to 30 June 2007 being the first set of financial statements, and thus no comparative information is available.

31 SUBSEQUENT EVENTS

Subsequent to the end of the financial period:

a) On 4 July 2007, the Company's subsidiary, Capital Lease Aviation Plc ("CLA") has raised a total of £11,450,001.36 (gross of issue costs) through the issue of 47,708,339 new ordinary shares of 0.1 pence each at a price of 24 pence per ordinary share. The total number of ordinary shares in issue in CLA was 97,808,339 and the Company now holds 50,100,000 ordinary shares in CLA, representing a 51.22% holding in the enlarged share capital of CLA.

b) On 13 & 14 July 2007, the Company has issued a total of 3,225,000 ordinary shares of 1 pence each following the exercise of warrants by:

1. H & Q Asia Ventures II LLC (administered by H&Q Asia Pacific) has exercised 500,000 warrants;

2. A company in which Mr. R. J. Chatfield (Chairman of Avation) is one of the beneficial holders has exercised 1,400,000 warrants;

3. Mr. Andrew C. Baudinette, a director of the Company, who placed a total of 2 million warrants with Silex Nominees Limited for a consideration of £580,000; Mr Baudinette then exercised 600,000 warrants;

4. Mrs. Siobhan Cool, the Company Secretary, who exercised 150,000 warrants;

5. Former Directors of the Company, who exercised a total of 225,000 warrants.

6. A further 350,000 warrants have been exercised.

c) On 4 July 2007 the Company appointed Mr Richard Sinclair as Finance Director and Ms Loh Chuen Thim as an additional Company Secretary.

d) On 23 July 2007, the Company's subsidiary CLA secured a further US$48 million finance facility and on 22 August 2007 it entered into a sale agreement to purchase two Fokker 100 jet Aircraft.

31 SUBSEQUENT EVENTS (con't)

e) On 25 July 2007, a Director of the Company, Mr Andrew Baudinette purchased 2,500 shares of the Company at a price of 77.5 pence per share.

A company in which the Chairman of the Company, Mr. R. J. Chatfield, is one of the beneficial holders, has sold 1,000,000 shares at a price of 81p per share.

f) On 31 July 2007, the Company's subsidiary CLA has acquired its fourth aircraft for US$4.9 million. The aircraft is currently operated by a European airline for a lease rate of about US $1 million per year plus maintenance reserves

g) On 17 August 2007, the Company issued a total of 2,000,000 ordinary shares of 1 pence following the exercise of warrants by Silex Nominees Ltd and received a total of £80,000 as a result of the exercise of those Warrants.

h) On 26 September 2007, the Group has secured a fixed interest US$7,574,000 finance facility for its leasing subsidiary Capital Lease Aviation PLC. The group intends to use a portion of the proceeds to fully fund the purchase of additional commercial passenger aircraft. The facility is being provided by a subsidiary of a major UK commercial bank and the currency of the facility is United States Dollars. The finance facility has a term to expiry of 60 months with interest fixed at 6.5% and there are no convertible to equity elements to the facility.

i) On 25 September 2007, the Company's subsidiary CLA has acquired its fifth aircraft for US$5.9 million. The aircraft has been leased to Skywest Airlines for operation in Australia at a lease rate of about approximately US$1.18 million per year plus maintenance reserves.

j) On 28 September 2007, the Company's subsidiary CLA has contracted to purchase its' sixth aircraft for US$5.10m. With final net cash outlays after acquisition inspection and adjustments, the final purchase price is US$4.63 million. The aircraft has been leased to Skywest Airlines for operation in Australia at a lease rate of approximatelyabout US$1.18 million per year plus maintenance reserves

32 ADOPTION OF FUTURE IFRS

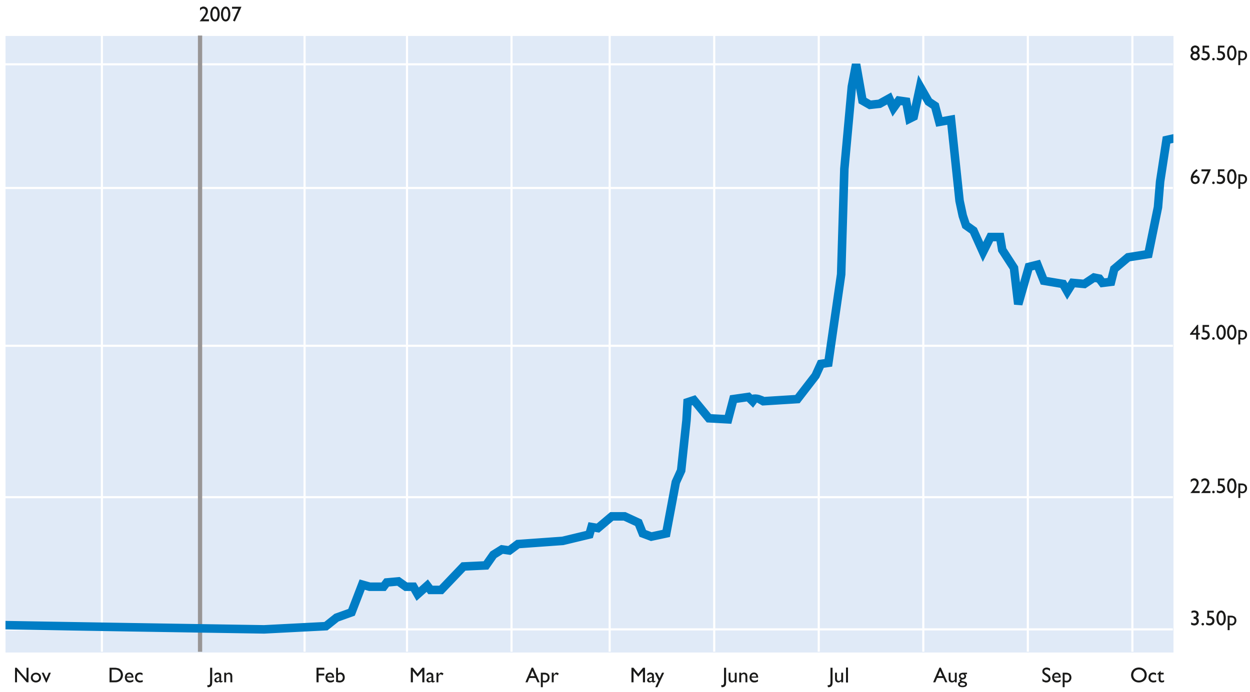
Certain new accounting standards and interpretations have been published that are mandatory for accounting periods beginning on or after 1 July 2007. The Company and the Group does not expect that adoption of these accounting standards or interpretations will have a material impact on the financial statements of the Company and the consolidated financial statements of the Group.

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company and the consolidated financial statements of the Group for the financial period ended 30 June 2007 were authorised for issue by the Board of Directors on 15th October 2007.

Fokker F100 Regional Jet M.S.N. 11484 leased to Skywest Airlines.
Perth Airport – Western Australia.

Share price performance
(November 2006 to October 12 2007)



Capital Management Program

The company maintains a capital management program with a purpose of increasing the asset value per share and a high return on equity. The company may from time to time, subject to shareholder approvals, buy back its own shares or issue new shares.

Register of Top 20 Shareholders
(as at June 30 2007)

Name of Shareholder	Holding (Number of shares)
HARGREAVE HALE NOMINEES LIMITED (R.J. Chatfield et. al)	3,014,490
APOLLO NOMINEES LTD	1,926,756
FITEL NOMINEES LIMITED	1,550,000
FITEL NOMINEES LIMITED	993,128
CREDIT SUISSE SECURITIES (EUROPE) LIMITED	818,244
FITEL NOMINEES LIMITED	700,000
FITEL NOMINEES LIMITED	600,712
FITEL NOMINEES LIMITED	500,000
ROCK (NOMINEES) LIMITED	405,000
J M FINN NOMINEES LIMITED	383,371
PERSHING KEEN NOMINEES LIMITED	350,000
MIBAGO (S) PTE LTD	347,373
TEAWOOD NOMINEES LIMITED	295,000
TD WATERHOUSE NOMINEES (EUROPE) LIMITED	266,031
FITEL NOMINEES LIMITED	250,000
FITEL NOMINEES LIMITED	250,000
W B NOMINEES LIMITED	248,472
RAVEN NOMINEES LIMITED	213,473
KBC PEEL HUNT LTD	211,807
FITEL NOMINEES LIMITED	180,000

CORPORATE DIRECTORY

DIRECTORS:
RJ (Jeff) Chatfield
Andrew Baudinette
Richard Sinclair (appointed 4 July 2007)

COMPANY SECRETARIES:
Siobhan Cool
Loh Chuen Thim (appointed 4 July 2007)

REGISTERED OFFICE:
2 Stone Buildings
Lincolns Inn
London WC2A 3TH

AUDITORS:
Kingston Smith LLP
Devonshire House
60 Goswell Road
London EC1M 7AD

SOLICITORS:
Speechly Bircham LLP
6 St Andrew Street
London EC4A 3LX

CORPORATE ADVISER:
Loeb Aron & Company Ltd
Georgian House
63 Coleman Street
London EC2R 5BB

REGISTRARS:
Computershare Investor Services PLC
P O Box 82
The Pavilions
Bridgewater Road
Bristol BS99 7NH

BANKERS:
Citibank NA
3 Temasek Avenue
#12-00 Centennial Tower
Singapore 039190

Lloyds TSB Bank
25 Gresham Street
London EC2V 7HN UK

BROKERS:
Cornhill Asset Management
1 Cornhill
London EC3V 3ND
Tel: +44 (0) 20 7645 8320

WH Ireland
224 Martin Lane
London EC4R 0DR
Tel: +44 (0) 20 7220 1666

CORPORATE GOVERNANCE STATEMENT:

The board of directors is cognizant of corporate governance guidelines and processors. The auditor for Avation is Kingston Smith LLP of London. All of the directors and senior management are well versed in the art of good corporate governance processes and frameworks. The Company seeks at all times to ensure that conflicts of interest are avoided and related party transactions and the like, fully disclosed. The board meets in a group, in person, whenever material matters need to be discussed. A further statement of the corporate governance process of the company is available upon request.

avation PLC

www.avation.net