



# Annual Report 2008

# Our Fleet

(AS AT SEPTEMBER 2008)



**Model** Fokker 100  
**Details** MSN 11488  
**Date of Acquisition** 15 November 2006  
**Lessee** Skywest Airlines (VH-FNR)  
**Operational Area** Western Australia,  
Northern Territory, Bali



**Model** Fokker 100  
**Details** MSN 11489  
**Date of Acquisition** 15 November 2006  
**Lessee** Skywest Airlines (VH-FNJ)  
**Operational Area** Western Australia,  
Northern Territory, Bali



**Model** Airbus A321-200  
**Details** MSN 1921  
**Date of Acquisition** 30 June 2008  
**Lessee** Thomas Cook (OY-VKB)  
**Operational Area** Europe, Scandinavia



**Model** Fokker 100  
**Details** MSN 11373  
**Date of Acquisition** 31 July 2007  
**Lessee** Skywest Airlines (VH-FNU)  
**Operational Area** Western Australia,  
Northern Territory, Bali



**Model** Fokker 100  
**Details** MSN 11461  
**Date of Acquisition** 25 September 2007  
**Lessee** Skywest Airlines (VH-FNT)  
**Operational Area** Western Australia



**Model** Airbus A320-200  
**Details** MSN 052  
**Date of Acquisition** 25 March 2008  
**Lessee** US Airways Inc (N620AW)  
**Operational Area** North America



Fokker 100  
 MSN 11334  
 28 February 2008  
 Skywest Airlines (VH-FNC)  
 Western Australia, Charter Operations



Fokker 100  
 MSN 11391  
 31 July 2008  
 Skywest Airlines (VH-FSW)  
 Western Australia



Fokker 100  
 MSN 11326  
 28 September 2007  
 Skywest Airlines (VH-FNN)  
 Western Australia



Airbus A321-200  
 MSN 1881  
 30 June 2008  
 Thomas Cook (OY-VKA)  
 Europe, Scandinavia



Fokker 100  
 MSN 11484  
 11 April 2007  
 Skywest Airlines (VH-FNY)  
 Western Australia,  
 Northern Territory, Bali

# Contents

	PAGE
CHAIRMAN'S STATEMENT	5
COMPANY OVERVIEW	6
BOARD OF DIRECTORS	7
REPORT OF THE DIRECTORS	8
DIRECTORS' RESPONSIBILITIES AND INDEPENDENT AUDITORS' REPORT	11
<b>FINANCIAL STATEMENTS</b>	<b>13</b>
CONSOLIDATED INCOME STATEMENT	14
CONSOLIDATED BALANCE SHEET	15
COMPANY BALANCE SHEET	16
STATEMENTS OF CHANGES IN EQUITY	17
CONSOLIDATED CASH FLOW STATEMENT	19
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	20
SHARE PRICE PERFORMANCE	49
TOP 20 SHAREHOLDERS	50

# Chairman's Statement



Dear Fellow Shareholders,

On behalf of your board of directors I present to you the audited financial statements for Avation PLC and its subsidiaries for the year ended 30th June 2008 and seek to appraise you of the progress that the Avation group has made.

Your board is pleased to report that in respect of the year ending 30th June 2008 the consolidated net profit after tax was GBP 6,965,915 with earnings per share of 28.75 pence.

The numbers in the foregoing paragraph speak for themselves and are all the more satisfactory as your company is in its early growth stage. Nevertheless a substantial fraction of the profit increase resulted from the creation of Capital Lease Aviation PLC ("CLA") as a subsidiary and the gains therefrom. The operating businesses also had a satisfactory year with excellent and robust cash flows being recorded across the group.

Despite a challenging economic backdrop for the world economy as a whole, some firms continue to prosper and your Company – Avation Plc – is one such extraordinary business. As at June 30th the asset base of the group had grown to GBP 70,365,393 which is representative of the value of the aircraft owned by the Company.

The Avation group currently owns 11 aircraft. This number is likely to increase as one of its subsidiaries, CLA, is looking to acquire additional aircraft. CLA has recently announced that it has secured a further USD \$150,000,000 of revolving credit to be used for aircraft acquisitions, this funding is in the form of a "warehouse facility". The Company and all its subsidiaries, including CLA, manages to mitigate credit maturation risk by closely aligning the finance for aircraft acquisitions to match the corresponding lease term of the aircraft – this is a key differential from some other aircraft lessors.

The Company was formed via a special dividend from Skywest Airlines Ltd with shares distributed in specie to all of the then Skywest Airlines Ltd shareholders. Avation PLC was intended to support Skywest Airlines Ltd by providing aircraft leasing facilities and continues to do so. Your Company is now growing in all senses inasmuch as its universe of customers now includes

large international airlines and the aircraft owned by the group are of diverse types.

Your Board recognises the importance of rewarding shareholders - the owners of the Company and second only in importance to our customers. Avation Plc has paid dividends and conducted a capital management program by buying in shares for cancellation. Despite the current economic and financial problems extant, the Company continues to prosper, and therefore your board is recommending to shareholders a final dividend payment of 0.5p per share and it hopes to maintain a progressive dividend policy going forward. The record date for this final dividend is the 11th of November 2008 and the proposed payment date, subject to shareholder approval at the Annual General Meeting, is the 5th January 2009.

The Company and its subsidiaries have secured the bulk of its debt funding at a cost of around 6% per annum. Whilst the Company believes that it can obtain access to further funds for the purchase of aircraft, access to funding nevertheless remains a risk, this risk is common to all businesses that are capital intensive such as your business. Specific aviation risks are also present and include the credit worthiness of client airlines in the wake of the unprecedented surge in the price of jet fuel and the crisis of confidence in world financial structures and institutions.

My colleagues and I will continue to work tirelessly to build this Company into a well respected, highly profitable, diversified, cash generative aircraft leasing enterprise. Your board would like to thank you - the shareholders and all other stakeholders - for their continued support and good will and look forward with confidence to another year in the development of Avation PLC.



R J (Jeff) Chatfield  
Chairman

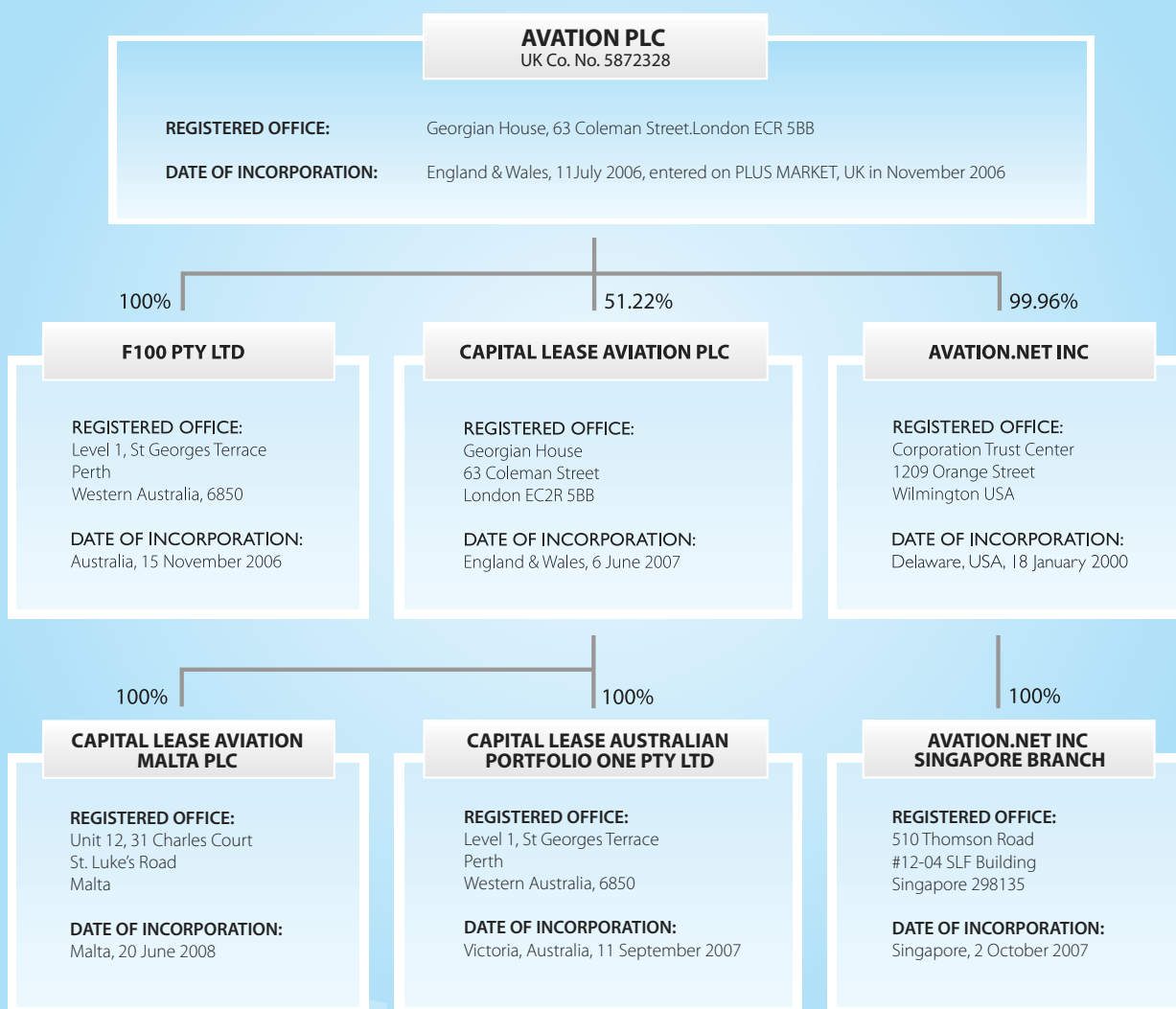
3 November 2008

# Company Overview



## avation PLC

### GROUP STRUCTURE



# Board of Directors



**JEFF CHATFIELD**  
**Chairman**

Mr Chatfield is the Chairman of Avation PLC and has been instrumental in establishing and growing the Company. He is also the Group

Executive Chairman of Skywest Airlines Ltd and Chairman of Skywest Airlines Pty Ltd. Mr Chatfield has managed and been a director of a number of companies involved in the airline industry, data distribution, electronics, investment, broadcasting and manufacturing sectors. He has worked in a number of successful start-up companies and is the author and registered holder of a variety of patents. He has a Bachelor of Engineering and a Master of Engineering Science from the University of Western Australia. He is a member of the Australian Institute of Company Directors and the Singapore Institute of Directors.

He was born in Perth, Australia and is a permanent resident of Singapore.



**ANDREW BAUDINETTE**  
**Non-Executive Director**

Mr Baudinette was appointed as a Director of the Company on 11 July 2006. He is an Australian citizen and a resident of the Republic

of Singapore. A skilled marketer and manager, he has a 25 year history in media, having held management positions in the Australian radio, newspaper and television industries. Prior to this, he was a broadcaster and radio programmer in regional Australian radio. He was appointed as CEO of the Company's subsidiary Avation.Net Inc in 2003 and became its Managing Director in 2005.

As well as having significant management level experience in all facets of commercial media and emerging technology, Mr Baudinette has had practical exposure to corporate re-structuring. He has been involved with and driven start-up businesses in the advertising, travel, technology and entertainment industries.



**BRYANT JAMES MCLARTY**  
**Non-Executive Director**

Appointed as a Director of the Company in 2007. Mr McLarty has extensive experience in corporate strategy and management with

a practical working knowledge of securities and equity markets. He currently is Executive Chairman of the Australian pharmaceutical company PharmAust Limited and has been the Managing Director of several ASX listed companies and is currently a director of a number of listed and unlisted companies. He is also a member of the Australian Institute of Company Directors.

# Report of the Directors



The directors have pleasure in presenting their report and financial statements for the financial year ended 30 June 2008.

## Principal activities and business review

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

On 11 September 2007, its subsidiary, Capital Lease Aviation Plc, incorporated a wholly owned subsidiary, Capital Lease Australian Portfolio One Pty Ltd in Australia. Capital Lease Australian Portfolio One Pty Ltd has commenced the business of leasing aircraft.

On 20 June 2008, its subsidiary, Capital Lease Aviation Plc, incorporated a wholly owned subsidiary, Capital Lease Malta Limited in Malta. Capital Lease Malta Limited has commenced the business of leasing aircraft.

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 5.

## Results and dividends

The consolidated income statement for the period is set out on page 14. The directors have proposed to pay a 0.5p final dividend.

## 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;

The Company - Avation Plc	Ordinary shares of 1p each	
	30 June 2008	1 July 2007 or at date of appointment
R. J. (Jeff) Chatfield (deemed interest)	3,489,490	3,089,490
A.C. Baudinette	606,501	1
Bryant James McLarty	7,300	-



# Report of the Directors (cont'd)



The following share warrants of the Company, issued to directors of the Company, existed at the year end:

Director's name	Date granted	Warrant price	Balance at beginning of year	Granted during the year	Exercised/ expired during the year	Balance at end of year
R.J. Chatfield *	30/10/06	4 p	4,600,000	-	(1,400,000)	3,200,000
R.J. Chatfield *	4/12/07	81.925 p	-	200,000	-	200,000
A.C. Baudinette	30/10/06	4 p	2,600,000	-	(2,600,000)	-
A.C. Baudinette	4/12/07	81.925 p	-	135,000	-	135,000

\* R.J. Chatfield was granted the share warrants via Epsom Assets Ltd.

The following share warrants of the Company's subsidiary, Capital Lease Aviation Plc, issued to directors of the Company, existed at the year end:

Director's name	Date granted	Warrant price	Balance at beginning of year	Granted during the year	Exercised/ expired during the year	Balance at end of year
R.J. Chatfield *	20 Jul 2007	24 p	-	1,370,833	-	1,370,833

\* R.J. Chatfield was granted the share warrants via Epsom Assets Ltd.

## Significant Shareholdings

	Ordinary Shares of 1p each	Percentage
FITEL NOMINEES LIMITED	3,179,490	12.58%
FITEL NOMINEES LIMITED	2,809,128	11.17%
FITEL NOMINEES LIMITED	2,500,000	9.90%
APOLLO NOMINEES LTD	2,036,756	8.06%
CREDIT SUISSE SECURITIES (EUROPE) LTD	1,583,244	6.26%
LEHMAN BROTHERS INTERNATIONAL (EUROPE) IN ADMINISTRATION	1,100,000	4.35%
LOEB ARON & COMPANY LTD	920,000	3.64%
PERSHING NOMINEES LIMITED	778,828	3.08%

# Report of the Directors (cont'd)



## 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 60 days purchases.

## Share Repurchase

During the financial year, the Company purchased 194,197 of its own ordinary shares of 1 pence each through PLUS Market at market price ranges from 49 pence to 80 pence for a sum of £131,266 for cancellation in accordance with the Company's capital management policies. This represents 0.8% of the share capital at the year end.

## 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 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 J (Jeff) Chatfield  
Director

3 November 2008

# Directors' Responsibilities & Report of the Auditors

## Statement of Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union.

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 Group and parent financial statements of Avation plc for the year ended 30 June 2008 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 and Article 4 of the IAS Regulation. 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. The information given in the Report of the Directors includes the specific information presented in the Chairman's statement that is cross-referenced from the Business Review Section of the Report of the Directors.

We read other information contained in the Annual Report and consider whether it is inconsistent with the audited financial statements. The other information comprises of the Directors' Report and Chairman's Statement. 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.

## Directors' Responsibilities & Report of the Auditors (cont'd)

### 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 2008 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

3 November 2008

**ava**tion PLC

# Financial Statements

FOR THE FINANCIAL YEAR  
ENDED 30 JUNE 2008

REGISTERED NUMBER: 5872328 (ENGLAND & WALES)

# Consolidated Income Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

		Year ended 30 June	Period ended 30 June
	Note	2008 £	2007 £
<b>Continuing operations and acquisitions</b>			
<b>Revenue</b>	6	5,031,679	1,806,251
<b>Cost of sales</b>		(127,739)	(560,242)
<b>Gross profit</b>		4,903,940	1,246,009
Other operating income	7	53,114	53,457
Administrative expenses	9	(890,923)	(175,395)
Exceptional item	8	5,503,165	-
Other operating expenses	9	(1,115,199)	(165,257)
Finance income and expenses	10	(308,885)	(179,415)
<b>Profit before taxation</b>		8,145,212	779,399
Taxation	12	(782,035)	(231,814)
<b>Profit after tax</b>		7,363,177	547,585
Minority interests		(397,262)	-
<b>Attributable to the shareholders</b>		6,965,915	547,585
<b>Earnings per share for continuing and total operations</b>	13		
- Basic		28.75 pence	3.01 pence
- Fully Diluted		25.40 pence	1.96 pence

# Consolidated Balance Sheet

AS AT 30 JUNE 2008

	Note	2008 £	2007 £
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		1,257,525	828,345
Trade and other receivables	14	362,866	369,813
Inventories	15	735	697
<b>Total current assets</b>		<b>1,621,126</b>	<b>1,198,855</b>
<b>Non-current assets</b>			
Property, plant and equipment	17	67,419,726	9,473,546
Goodwill	18	1,324,541	1,324,541
<b>Total non-current assets</b>		<b>68,744,267</b>	<b>10,798,087</b>
<b>Total assets</b>		<b>70,365,393</b>	<b>11,996,942</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade and other payables	19	1,963,385	192,323
Provision for taxation		586,368	197,458
Loans and borrowings	20	6,263,715	985,890
Short-term provisions	21	299,336	-
Deferred income		279,968	121,198
<b>Total current liabilities</b>		<b>9,392,772</b>	<b>1,496,869</b>
<b>Non-current liabilities:</b>			
Trade and other payables	19	323,403	242,063
Loans and borrowings	20	37,599,720	5,319,577
Deferred tax liabilities	22	1,825,398	939,018
<b>Total non-current liabilities</b>		<b>39,748,521</b>	<b>6,500,658</b>
<b>Equity attributable to shareholders:</b>			
Share capital	23	252,700	191,142
Share premium		1,213,770	1,155,094
Asset revaluation reserve		4,454,006	2,130,503
Share option reserve		12,788	-
Foreign currency translation reserve		(6,605)	(24,909)
Retained earnings		7,386,700	547,585
		13,313,359	3,999,415
Minority Interest		7,910,741	-
		21,224,100	3,999,415
<b>Total liabilities and equity</b>		<b>70,365,393</b>	<b>11,996,942</b>

Approved by the board and authorised for issue on 3 November 2008



R J (Jeff) Chatfield  
Director

# Company Balance Sheet

AS AT 30 JUNE 2008

	Note	2008 £	2007 £
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		64,348	30,982
Trade and other receivables	14	231,428	47,000
<b>Total current assets</b>		<b>295,776</b>	<b>77,982</b>
<b>Non-current asset:</b>			
Investment in subsidiaries	16	1,440,286	1,440,286
<b>Total non-current asset</b>		<b>1,440,286</b>	<b>1,440,286</b>
<b>Total assets</b>		<b>1,736,062</b>	<b>1,518,268</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade and other payables	19	19,900	116,274
Provision for taxation		90,926	-
<b>Total current liabilities</b>		<b>110,826</b>	<b>116,274</b>
<b>Capital and reserves:</b>			
Share capital	23	252,700	191,142
Share premium		1,213,770	1,155,094
Retained earnings		158,766	55,758
<b>Net equity</b>		<b>1,625,236</b>	<b>1,401,994</b>
<b>Total liabilities and equity</b>		<b>1,736,062</b>	<b>1,518,268</b>

Approved by the board and authorised for issue on 3 November 2008



R J (Jeff) Chatfield  
Director



# Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

Note	Share capital £	Share premium £	Asset revaluation reserve £	Foreign currency translation reserve £	Share option reserve £	Retained earnings £	Total £	Minority Interest £	Total equity £
<u>Group</u>									
	191,142	1,155,094	2,130,503	(24,909)	-	547,585	3,999,415	-	3,999,415
25	-	-	2,323,503	-	-	-	2,323,503	2,212,585	4,536,088
	-	-	-	18,304	-	-	18,304	550	18,854
	-	-	2,323,503	18,304	-	-	2,341,807	2,213,135	4,554,942
	-	-	-	-	-	6,965,915	6,965,915	397,262	7,363,177
	-	-	2,323,503	18,304	-	6,965,915	9,307,722	2,610,397	11,918,119
	-	-	-	-	12,788	-	12,788	12,179	24,967
	-	-	-	-	-	(126,800)	(126,800)	-	(126,800)
	-	-	-	-	-	-	-	5,288,165	5,288,165
	63,500	188,000	-	-	-	-	251,500	-	251,500
	(1,942)	(129,324)	-	-	-	-	(131,266)	-	(131,266)
	252,700	1,213,770	4,454,006	(6,605)	12,788	7,386,700	13,313,359	7,910,741	21,224,100

Note	Share capital £	Share premium £	Asset revaluation reserve £	Foreign currency translation reserve £	Share option reserve £	Retained earnings £	Total £	Minority Interest £	Total equity £
<u>Group</u>									
	-	-	-	-	-	-	-	-	-
	-	-	2,130,503	-	-	-	2,130,503	-	2,130,503
	-	-	-	(24,909)	-	-	(24,909)	-	(24,909)
	-	-	2,130,503	(24,909)	-	-	2,105,594	-	2,105,594
	-	-	-	-	-	547,585	547,585	-	547,585
	-	-	2,130,503	(24,909)	-	547,585	2,653,179	-	2,653,179
23	194,142	1,191,094	-	-	-	-	1,385,236	-	1,385,236
23	(3,000)	(36,000)	-	-	-	-	(39,000)	-	(39,000)
	191,142	1,155,094	2,130,503	(24,909)	-	547,585	3,999,415	-	3,999,415

# Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Note	Share capital £	Share premium £	Asset revaluation reserve £	Share option reserve £	Retained earnings £	Total £
<u>Company</u>							
Balance at 1 July 2007		191,142	1,155,094	-	-	55,758	1,401,994
Net profit or the financial period period		-	-	-	-	229,808	229,808
Total recognised income		-	-	-	-	229,808	229,808
Dividend relating to 2007 paid		-	-	-	-	(126,800)	(126,800)
Increase of issued share capital	23	63,500	188,000	-	-	-	251,500
Share buyback	23	(1,942)	(129,324)	-	-	-	(131,266)
Balance at 30 June 2008		252,700	1,213,770	-	-	158,766	1,625,236

	Share capital £	Share premium £	Asset revaluation reserve £	Share option reserve £	Retained Earnings £	Total £
<u>Company</u>						
Balance at 11 July 2006 (date of incorporation)	-	-	-	-	-	-
Increase in issued share capital	194,142	1,191,094	-	-	-	1,385,236
Share buyback	(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

The profit for the company for the financial year was £229,808. The company is exempt from publishing its profit and loss account pursuant to Section 230 of the Companies Act 1985.

During the year the company paid a final dividend for the year ended 30 June 2007 of 0.5 pence per ordinary share.

# Consolidated Cash Flow Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	30 June 2008 £	30 June 2007 £
<b>Cash flows from operating activities:</b>		
Total profit	7,363,177	547,585
Adjustments for:		
Income tax	782,035	231,814
Depreciation expense	1,115,198	163,240
Gain on dilution	(5,503,165)	-
Share option expense	24,968	-
Interest expense	655,713	186,197
Interest income	(346,828)	(8,950)
Operating profit before working capital changes	4,091,098	1,119,886
Trade and other receivables	6,947	(369,813)
Inventory	(38)	(697)
Trade and other payables	1,852,402	434,387
Short-term provisions	299,336	-
Deferred income	158,770	121,198
Cash from operations	6,408,515	1,304,961
Interest paid	(655,713)	(186,197)
Interest received	346,828	8,950
Corporation tax paid	(201,384)	(34,356)
<b>Net cash from operating activities</b>	<b>5,898,246</b>	<b>1,093,358</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(53,735,874)	(6,585,135)
<b>Net cash used in investing activities</b>	<b>(53,735,874)</b>	<b>(6,585,135)</b>
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of ordinary shares	251,500	-
Share buyback	(131,266)	-
Net proceeds from issuance of subsidiary's shares to minority	10,791,329	-
Dividends paid	(126,800)	-
Proceeds from borrowings	39,332,659	6,620,655
Repayment of borrowings	(1,774,691)	(315,188)
<b>Net cash from financing activities</b>	<b>48,342,731</b>	<b>6,305,467</b>
Net effect of exchange rate changes in consolidating subsidiaries	(75,923)	14,655
<b>Net increase in cash</b>	<b>429,180</b>	<b>828,345</b>
Cash and cash equivalent at beginning of financial year	828,345	-
<b>Cash and cash equivalent at end of financial year</b>	<b>1,257,525</b>	<b>828,345</b>
Cash and cash equivalents in the consolidated cash flow statement are not restricted in use and denominated in the following currencies:		
	<b>Year Ended 30 June 2008 £</b>	<b>Period Ended 30 June 2007 £</b>
Pounds Sterling	165,916	81,070
United States Dollars	1,030,331	722,649
Australian Dollars	17,801	24,502
Euro	1,593	-
Singapore Dollars	41,884	124
	<b>1,257,525</b>	<b>828,345</b>
Interest earning balances	1,215,641	745,917

The rate of interest for the cash on interest earning accounts is at 4.5% to 6% (2007:4.50% to 5.85%) per annum. These approximate the weighted effective interest rate.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 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 the inside back cover.

As disclosed in the Report of the Directors, the principal activity of the Company is to own and lease of aircraft.

## 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 ("IASB"), and have been prepared in accordance with the historical cost convention, as modified by the revaluation of aircraft.

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.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

- c) **BUSINESS COMBINATIONS** - The acquisition of subsidiaries is accounted for using the 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.
- 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.

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.

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) **INVENTORIES** – Inventories of consumable spare parts are stated at the lower of cost or market value determined on a portfolio basis.
- f) **PROPERTY, PLANT AND EQUIPMENT** – Aircraft held for use in the 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 accumulated depreciation and 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 asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case the increase is credited to the 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 asset 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 the asset revaluation reserve is transferred directly to retained earnings.

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

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

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.

- g) **IMPAIRMENT OF ASSETS** - At each balance sheet date, the Group reviews the carrying amounts of its tangible 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.

- h) **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. In respect of maintenance rent, a corresponding provision is made in accordance with the expected maintenance costs that will be drawn in accordance with the lease conditions and lease term.
- i) **SHARE-BASED PAYMENTS** - The cost of share based payment arrangement whereby employees receive remuneration in the form of warrants, is recognised as an employee benefit expense in the income statement. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at date of grant. The assumption underlying the number of warrants expected to vest are subsequently adjusted for the effects of non market-based vesting conditions prevailing at the balance sheet date. Fair value is measured by the use of Black-Scholes option pricing model and is based on a reasonable expectation of the extent to which performance criteria will be met.
- j) **LEASES** - The Group leases aircraft to airlines under operating leases. 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.
- k) **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) Aircraft 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) 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.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

(iii) Sales of goods are recognised when goods are delivered and title has passed.

(iv) Dividend income from investments is recognised when the shareholders' right 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.

- l) **BORROWING COSTS** - Borrowing costs directly attributable to the acquisition of property, plant and equipment are added to the cost of the assets and amortised over the life of the assets.

The loan facility fees added to the cost of the assets are amortised between 5 years to 25 years, that is over the life of the assets.

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

- m) **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 recognised 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 income 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.

- n) **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

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

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.

- o) 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 and other receivables – Trade and other 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 recognised 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.
  - 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).
  - vi) Trade and other payables - Trade payables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.



# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

- vii) Trade receivables - Trade receivables are stated at their original value, as the interest that would be recognised from discounting future cash receipts over the short credit period is not considered to be material. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts. Interest on overdue trade receivables is recognised as it accrues.
- viii) Equity instruments - Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 4 FINANCIAL RISK 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 company's assets to maintain insurance, adequate maintenance policies and/or 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.

The Group currently has exposure to three airline customers across three continents and diversification will continue as the company grows its asset base.

### iii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets.

The company further seeks to reduce this risk by fixing interest rates on loans to match the term of the underlying lease term of the asset.

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

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

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 Pound Sterling and United States dollar. 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 unless otherwise stated.

(a) Compensation of directors and key management personnel

The remuneration of directors and 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		Company	
	Year Ended 30 June 2008	Period Ended 30 June 2007	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£	£	£
Key management of the Group				
- Director's fee	27,000	12,000	27,000	12,000
- Directors of the Company	39,900	50,203	-	-

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

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

	Group	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Aggregate emoluments	39,900	50,203
Company contributions to money purchase pension scheme	-	-
	39,900	50,203

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

During the financial year, two directors exercised/assigned 2,800,000 warrants and the aggregate amount of gains made by these directors on exercise of the share options amounted to £2,067,000.

(b) Significant related party transactions:

	Group		Company	
	Year Ended 30 June 2008	Period Ended 30 June 2007	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£	£	£
Interest expense paid to a director of the company	-	7,768	-	-
Sales of goods to a related party <sup>5</sup>	143,529	388,653	-	-
Management fee paid to a related party <sup>1</sup>	120,000	-	-	-
Service fee paid to a related party <sup>2</sup>	56,979	-	-	-
Maintenance rent received from a related party <sup>3</sup>	1,432,665	422,571	-	-
Rental income received from a related party <sup>4</sup>	3,128,561	738,329	-	-

<sup>1</sup> - Paid to Epsom Assets Ltd in which a director of the company is a member.

<sup>2</sup> - Paid to Sinclair Management in which a director of the subsidiary is a member.

<sup>3</sup> - Received from Skywest Airlines Pty Ltd in which a director of the company is also a director of Skywest Airlines Pty Ltd.

<sup>4</sup> - Received from Skywest Airlines Pty Ltd in which a director of the company is also a director of Skywest Airlines Pty Ltd.

<sup>5</sup> - Sales of goods to Skywest Airlines Pty Ltd.

## 6 REVENUE

	Group	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Rental income	3,422,596	738,329
Maintenance rent	1,432,664	422,571
Sales of finished goods	175,559	643,287
Management and service income	860	-
Royalties and commission	-	2,064
	5,031,679	1,806,251

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 7 OTHER OPERATING INCOME

	Group	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Incentive income	37,046	50,095
Foreign currency exchange adjustment gain	16,068	3,362
	53,114	53,457

## 8 EXCEPTIONAL ITEM

	Group	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Gain on dilution of interest in subsidiary	5,503,165	-

On 4 July 2007, the Group diluted the interest in its subsidiary, Capital Lease Aviation Plc from 100% to 51.22% shareholding through the issue of 47,708,339 new ordinary shares of £0.001 each at a premium of £0.239 per ordinary share.

## 9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Group	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Depreciation of property, plant and equipment	1,115,198	163,240
Auditors' remuneration for audit services (company £16,000)	59,652	16,831
Auditors' remuneration for non-audit services		
- Corporate finance	19,000	-
- Corporate taxation	13,178	-

## 10 FINANCE INCOME AND EXPENSES

	Group	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Interest income	(346,828)	(8,950)
Interest expense on secured borrowings	655,713	186,197
Amortisation	-	2,168
	308,885	179,415

## 11 STAFF COSTS

There were no staff costs during the financial year ended 30 June 2008 and 30 June 2007 except for fees paid to directors. See Note 5 for details.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 12 TAXATION

	Group	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Current tax expense		
- United Kingdom	100,132	-
- Overseas	482,742	204,892
Deferred tax expense – United Kingdom	196,521	-
Deferred tax expense - overseas	2,640	26,922
	782,035	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	
	Year Ended 30 June 2008	Period Ended 30 June 2007
	£	£
Profit before income tax	8,145,212	779,399
Tax calculated at tax rate of 30%	2,443,564	233,820
Effects of:		
Deferred tax benefits not recorded	61,347	-
Non-taxable item	(1,728,715)	-
Different tax rates of other countries	4,750	(2,006)
Adjustment to tax charge in respect of previous periods	1,089	-
Total income tax expense	782,035	231,814

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 13 EARNINGS PER SHARE

### a) Basic earnings per share ("EPS")

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	
	30 June 2008	30 June 2007
	£	£
Net profit attributable to equity holders of the Company	6,965,915	547,585
Weighted average number of ordinary shares	24,229,660	18,171,382
Basic earnings per share	28.75 pence	3.01 pence

### b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares; warrants.

For warrants, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share option less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

Diluted earnings per share attributable to equity holders of the Company is calculated as follows:

	Group	
	30 June 2008	30 June 2007
	£	£
Net profit attributable to equity holders of the Company	6,965,915	547,585
Weighted average number of ordinary shares	24,229,660	18,171,382
Adjustment for:		
- Warrants	3,200,000	9,750,000
	27,429,660	27,921,382
Diluted earnings per share	25.40 pence	1.96 pence

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	£	£	£	£
Subsidiaries	-	-	231,428	47,000
Related parties	53,806	11,007	-	-
Trade receivables	298,797	163,066	-	-
Other receivables	4,747	156,506	-	-
Prepayment	-	10,748	-	-
Deposits	5,014	27,451	-	-
Advances	502	1,035	-	-
	362,866	369,813	231,428	47,000

In respect of the company, the amounts due from subsidiaries are unsecured, interest-free, without fixed repayment terms and payable on demand except as follows:

The average credit period generally granted to non-related trade receivables customers is 30 to 60 days. In respect to leased aircraft, rent is due in advance in accordance with the leases.

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

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	£	£	£	£
Pounds Sterling	2,498	-	-	47,000
United States Dollars	336,758	221,355	231,428	-
Australian Dollars	21,720	143,399	-	-
Singapore Dollars	1,890	5,059	-	-
	362,866	369,813	231,428	47,000

## 15 INVENTORIES

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	£	£	£	£
Finished goods, at cost	735	697	-	-

The cost of inventories recognised as an expense and included in the cost of sales amounts to £175,560 (2007 : 643,288).

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 16 INVESTMENT IN SUBSIDIARIES

	Company	
	30 June 2008	30 June 2007
	£	£
Unquoted equity shares, at cost	1,390,186	1,440,286
Quoted equity shares, at cost	50,100	-
	1,440,286	1,440,286
Quoted equity shares, at market value	41,833,500	-

All the subsidiaries acquired during the current financial year were dormant on the date of acquisition and the purchase price of these subsidiaries was equivalent to the net assets of the company at the date of acquisition. All holdings are of ordinary shares.

Details of the subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation/	Company's cost of investment		Group's effective equity interest	
			30 Jun '08	30 Jun '07	30 Jun '08	30 June '07
			£	£	%	%
The subsidiaries held directly by the company:						
Avation.net Inc (a)	Procurement	United States of America	1,390,181	1,390,181	99.96	99.96
Capital Lease Aviation Plc (b)	Leasing of aircraft	England & Wales	50,100	50,100	51.22	100.00
F100 Pty Ltd (c)	Leasing of aircraft	Australia	5	5	100.00	100.00
The subsidiaries held by Capital Lease Aviation Plc :						
Capital Lease Australian Portfolio Pty Ltd (c)	Leasing of aircraft	Australia	-	-	51.22	-
Capital Lease Malta Ltd (d)	Leasing of aircraft	Malta	-	-	51.22	-

(a) Audited by Jasmine Chua and Associates, Singapore

(b) Audited by Kingston Smith LLP, London, UK

(c) Audited by Moore Stephens, Perth, Australia

(d) Audited by Kingston Smith LLP, London, UK for consolidation purposes only.

Significant transactions with subsidiaries are as follows:

	Company	
	Year Ended	Period Ended
	30 June 2008	30 June 2007
	£	£
Management and service income	458,200	47,000
Dividend income received from subsidiary	-	50,100



# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 17 PROPERTY, PLANT AND EQUIPMENT

### Group

#### 2008

	Furniture and equipment £	Aircraft £	Total £
Cost or valuation:			
At beginning of year	3,600	9,627,963	9,631,563
Additions	-	53,735,874	53,735,874
Revaluation surplus on acquisition	-	5,223,307	5,223,307
Currency realignment	-	109,332	109,332
At end of year	3,600	68,696,476	68,700,076
Representing:			
Cost	3,600	2,762,000	2,765,600
Valuation	-	65,934,476	65,934,476
	3,600	68,696,476	68,700,076
Accumulated depreciation:			
At beginning of year	1,712	156,305	158,017
Depreciation for the year	1,199	1,113,999	1,115,198
Currency realignment	-	7,135	7,135
At end of year	2,911	1,277,439	1,280,350
Net book value:			
At beginning of year	1,888	9,471,658	9,473,546
At end of year	689	67,419,037	67,419,726

#### 2007

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

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 17 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

On 25 March 2008, the subsidiary, Capital Lease Aviation Plc acquired the right, title and interest in the Aircraft held on trust by Wilmington Trust Company ("Wilmington"), a US trust company. As the Aircraft is registered in the US, legal title to the Aircraft is held by Wilmington and Capital Lease Aviation Plc is the beneficial owner. The Aircraft is leased by Wilmington to a US airline.

The Group's property, plant and equipment include borrowing costs from bank loans specifically used for purchase of aircraft. During the financial year, the borrowing costs capitalised as cost of property, plant and equipment amount to £754,720.

The Group's aircraft were revalued in May and June 2008 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.

If the aircraft were measured using the cost model, the carrying amounts would be as follows:

	Group	
	30 June 2008	30 June 2007
	£	£
Cost	60,429,593	6,587,387
Accumulated depreciation	(1,003,678)	(156,305)
Net carrying value	59,425,915	6,431,082

## 18 GOODWILL

	Group	
	30 June 2008	30 June 2007
	£	£
Cost		
Balance at beginning of financial year	1,324,541	-
Acquisition of subsidiary	-	1,324,541
Balance at end of year	1,324,541	1,324,541

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 19 TRADE AND OTHER PAYABLES

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
<u>Current</u>	£	£	£	£
Subsidiaries (Note 16)	-	-	18	86,697
Related parties (Note 5)	23,400	50,253	691	-
Trade payables	1,418,532	15,491	-	-
Other payables	60,266	68,639	-	-
Accrued expenses	461,188	57,940	19,191	29,577
	1,963,386	192,323	19,900	116,274

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
<u>Non-current</u>	£	£	£	£
Other payables	323,403	242,063	-	-
	323,403	242,063	-	-

The amount due to subsidiaries and related parties are unsecured, interest free and without fixed repayment terms.

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

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

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
<u>Current</u>	£	£	£	£
Pound Sterling	127,863	28,211	19,191	116,274
United States Dollar	1,745,209	100,121	18	-
Australian Dollar	54,158	7,454	-	-
Euro	2,485	-	-	-
Singapore Dollar	33,671	56,537	691	-
	1,963,386	192,323	19,900	116,274

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
<u>Non-current</u>	£	£	£	£
United States Dollar	323,403	242,063	-	-
	323,403	242,063	-	-

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 20 LOAN AND BORROWINGS

	Group		Company	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	£	£	£	£
Secured borrowing I	3,692,874	4,310,967	-	-
Secured borrowing II	1,679,203	1,994,500	-	-
Secured borrowing III	1,607,446	-	-	-
Secured borrowing IV	4,261,900	-	-	-
Secured borrowing V	12,660,350	-	-	-
Secured borrowing VI	13,161,750	-	-	-
Unsecured borrowing VII	1,002,800	-	-	-
Secured borrowings VIII	3,471,620	-	-	-
Secured borrowings IX	2,325,492	-	-	-
<b>Total</b>	<b>43,863,435</b>	<b>6,305,467</b>	<b>-</b>	<b>-</b>
Less: current portion of loan borrowings	(6,263,715)	(985,980)	-	-
	<b>37,599,720</b>	<b>5,319,577</b>	<b>-</b>	<b>-</b>

Secured borrowing I is for a five year period and maturing 2013, repayable monthly. The loan is secured by fixed and floating charges over all aircraft purchased by its subsidiary, F100 Pty Ltd ("F100").

Secured borrowing II is for a four year period and maturing 2012, repayable monthly. The loan is secured by fixed and floating charges over all aircraft purchased its subsidiary, F100.

Secured borrowing III is for a five year period and maturing 2013, repayable monthly. The loan is secured by fixed and floating charges over all aircraft purchased by its subsidiary, F100.

Secured borrowing IV is for a five year period to January 2013, repayable monthly. The loan is secured by the aircraft of its subsidiary, Capital Lease Aviation Plc ("CLA").

Secured borrowing V is for a seven year period to March 2015, repayable monthly. The loan is secured by the aircraft of its subsidiary, Capital Lease Malta Ltd ("CLM") and a charge over the shares in CLM.

Secured borrowing VI is for a seven year period to February 2015, repayable monthly. The loan is secured by the aircraft of its subsidiary, CLM and a charge over the shares in CLM.

Unsecured borrowing VII is for a 2 year period to July 2010, repayable monthly. The loan is unsecured and it was taken by its subsidiary and the Group has issued a corporate guarantee in favour for the amount.

Secured borrowing VIII is for a four year period and maturing 2012 repayable monthly. The loan is secured by the aircraft of its subsidiary, Capital Lease Australian Portfolio One Pty Ltd.

Secured borrowing IX is for a five year period and maturing 2013 repayable monthly. The loan is secured by the aircraft of its subsidiary, Capital Lease Australian Portfolio One Pty Ltd.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 20 LOAN AND BORROWINGS (Cont'd)

The Group has secured mezzanine finance facility of US\$2,000,000 from a related party, CaptiveVision Capital Ltd ("CVC") which expires in October 2008. CVC granted a lender of the secured borrowings of the Group a charge over its assets for US\$2,000,000.

CVC charged the Group interest at 14% per annum based on the committed asset amount of A\$2,089,967.

The subsidiary, CLA has also secured a facility from the Company and its related companies for US\$800,000, which expires in October 2008. See Note 19 for details.

The average interest rates for the outside party borrowings range from 6% to 11% per annum.

All the loans are denominated in United States Dollars.

The carrying amounts of the borrowings approximate their fair values.

## 21 SHORT TERM PROVISIONS

	Group	
	30 June 2008	30 June 2007
	£	£
Maintenance reserve claim	299,336	-
	-	-

	Group	
	30 June 2008	30 June 2007
	£	£
Movement in provision for maintenance reserve claim is as follows:		
Beginning of financial year	-	-
Provision made	299,336	-
End of financial year	299,336	-

A provision of £299,336 was made during the year ended 30 June 2008 to cover expected drawdown on the maintenance reserves over the lease period of the aircraft.

There were no drawdowns on the reserves for the year ended 30 June 2008.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 22 DEFERRED TAX LIABILITIES

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

Group	Assets	Liabilities	Net
	30 June 2008	30 June 2008	30 June 2008
	£	£	£
Property, plant and equipment	-	1,921,497	1,921,497
Other items	(143,409)	47,310	(96,099)
Tax (assets) / liabilities	(143,409)	1,968,807	1,825,398

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

Movement in temporary differences during the financial year:

Group	Balance	Recognised in	Recognised in	Balance
	1 July 2007	profit and loss	equity	30 June 2008
	£	£	£	£
Property, plant and equipment	945,842	288,399	687,219	1,921,460
Other items	(6,824)	(89,238)	-	(96,062)
	939,018	199,161	687,219	1,825,398

Movement in temporary differences during the last financial year:

Group	Balance	Recognised in	Recognised in	Balance
	11 July 2006	profit and loss	equity	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

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 23 SHARE CAPITAL

	Company	
	30 June 2008	30 June 2007
	£	£
Authorised:		
100,000,000 ordinary shares of 1 penny each	1,000,000	1,000,000
Allotted, called up and fully paid:		
25,270,000 (2007: 19,114,197) ordinary shares of 1 penny each	252,700	191,142

On 13 July 2007, the Company issued 3,225,000 ordinary shares of 1 penny each following the exercise of warrants by the warrant holders.

On 17 August 2007, the Company issued 2,000,000 ordinary shares of 1 penny following the exercise of warrants by the warrant holders.

On 3 January 2008, the Company purchased 40,000 ordinary shares on market through PLUS Markets at 80 pence per ordinary share for cancellation.

On 7 January 2008, the Company purchased 19,197 ordinary shares on market through PLUS Markets at 79 pence per ordinary share for cancellation.

On 8 January 2008, the Company purchased 25,000 ordinary shares on market through PLUS Markets at 78 pence per ordinary share for cancellation.

On 16 January 2008, the Company purchased 10,000 ordinary shares on market through PLUS Markets at 74 pence per ordinary share for cancellation.

On 1 February 2008, the Company purchased 10,000 ordinary shares on market through PLUS Markets at 69 pence per ordinary share for cancellation.

On 24 March 2008, the Company issued 125,000 ordinary shares of 1 penny each following the exercise of warrants by warrant holders.

On 24 March 2008, the Company issued 1,000,000 ordinary shares of 1 penny each following the exercise of warrants by warrant holders.

On 1 April 2008, the Company purchased 40,000 ordinary shares on market through PLUS Markets at 60 pence per ordinary share for cancellation.

On 3 April 2008, the Company purchased 20,000 ordinary shares on market through PLUS Markets at 58 pence per ordinary share for cancellation.

On 2 May 2008, the Company purchased 30,000 ordinary shares on market through PLUS Markets at 49 pence per ordinary share for cancellation.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 24 SHARE-BASED PAYMENTS

Share options and warrants issued by the Company

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 warrants carry neither rights to dividends nor voting rights. Warrants may be exercised at any time from the date of vesting to the date of their expiry.

Warrants are granted to the directors and senior management of the Group to gain :

- 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 signed 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	-	(4,125,000)	-	3,200,000	29 Oct 2010	4.0 p	0.3 p
(2) 30 Oct 2006	725,000	-	(725,000)	-	-	6 Nov 2007	4.0 p	0.2 p
(3) 22 Dec 2006	1,000,000	-	(1,000,000)	-	-	6 Nov 2007	4.0 p	0.1 p
(4) 4 Jan 2007	500,000	-	(500,000)	-	-	3 Jan 2008	3.5 p	0.1 p
(5) 4 Dec 2007	-	485,000	-	-	485,000	3 Dec 2008	81.925 p	1.49p

The value of the warrants granted during the year was £7,227 which has not been provided in these accounts as it is not material.

The weighted average fair value of the warrants granted during the financial year is 1.49 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 5
Grant date share price	80 pence
Exercise price	81.925 pence
Expected volatility	15%
Warrant life	1 year
Dividend yield	0%
Risk free interest rate	6.3%

The company issued a total of 485,000 warrants during the financial year at 81.925 pence when the then market price was 80 pence.



# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 24 SHARE-BASED PAYMENTS (cont'd)

The weighted average exercise price of the following groups of options are as follows:

Outstanding at the beginning of the period	3.97 pence
Granted during the period	81.925 pence
Exercised during the period	3.96 pence
Outstanding at the end of the period	14.26 pence

The weighted average exercise price at date of exercise is 72.12 pence.

The weighted average remaining contractual life of share option outstanding at end of period is 2.08 years.

### b) Share options and warrants issued by Capital Lease Aviation plc

A subsidiary of the Company, Capital Lease Aviation plc, has an ownership-based compensation scheme for directors and senior management of the Group.

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

Warrants are granted to the directors and senior management of the Group to gain:

- 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 signed 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) 20 Jul 2007	-	3,247,916	-	-	3,247,916	13 Dec 2009	24.0 p	24.0 p
(2) 2 Aug 2007	-	2,000,000	-	-	2,000,000	13 Oct 2008	82.5 p	24.0 p
(3) 27 Nov 2007	-	97,916	-	-	97,916	13 Dec 2009	24.0 p	25.5 p

The weighted average fair value of the warrants granted during the financial year is 24 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.

Inputs into the model	Warrant series		
	Series 1	Series 2	Series 3
Grant date share price	24 pence	24 pence	75 pence
Exercise price	24 pence	82.5 pence	24 pence
Expected volatility	15%	15%	15%
Warrant life	2.4 years	2.2 years	2 years
Dividend yield	0%	0%	0%

The total expense recognised in the income statement arising from the share based payments is £24,968.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 25 OPERATING LEASES

### a) Leases as Lessor

The Group lease out their aircraft held under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	<b>Group</b>	
	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>£</b>	<b>£</b>
Within one year	9,370,823	1,407,462
In the second to fifth years inclusive	40,247,879	5,629,848
More than five years	5,277,235	1,624,571

### b) Contingencies

The Company's subsidiaries, Capital Lease Australian Portfolio One Pty Ltd and F100 Pty Ltd receive maintenance rent from the lease of their 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 Capital Lease Australian Portfolio One Pty Ltd and F100 Pty Ltd that the maintenance rent activity has been carried out necessarily.

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, Capital Lease Australian Portfolio One Pty Ltd and F100 Pty Ltd have 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 Capital Lease Australian Portfolio One Pty Ltd and F100 Pty Ltd hold at the end of the lease is not refundable to the lessees.

As at 30 June 2008, Capital Lease Australian Portfolio One Pty Ltd and F100 Pty Ltd had received £1,839,994 (2007 : £422,571) in maintenance rent.

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

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 26 SEGMENTAL INFORMATION

### a) Segmental 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.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 26 SEGMENTAL INFORMATION (Cont'd)

### b) Primary reporting segment – business segments

During the year ended 30 June 2008, the Group was organised into two main business segments which are aircraft leasing and business procurement.

Other operations of the Group mainly comprise investment holding which does not constitute a separate reportable segment. There is no inter-segment transaction recorded during the financial period.

<u>Group</u> Financial year ended 30 June 2008	<b>Aircraft leasing</b> £	<b>Procurement business</b> £	<b>Total</b> £
<b>Revenue</b>			
- External sales	4,855,260	176,419	5,031,679
- Other income			53,114
Total of all segments			5,084,793

<u>Group</u> Financial year ended 30 June 2008	<b>Aircraft leasing</b> £	<b>Procurement business</b> £	<b>Total</b> £
<b>Results</b>			
Segment results	4,855,260	48,680	4,903,940
Finance income			346,828
Finance expense			(394,020)
Gain on dilution			5,503,165
Unallocated corporate expenses			(2,214,700)
Profit before taxation			8,145,213
Taxation			(782,035)
Profit after taxation			7,363,178
Other segment items			
Capital expenditure and valuation movements			
- property, plant and equipment	59,068,513	-	59,068,513
Depreciation	1,113,999	1,199	1,115,198

<u>Group</u> Financial year ended 30 June 2008	<b>Aircraft leasing</b> £	<b>Procurement business</b> £	<b>Total</b> £
<b>Segment assets</b>			
Unallocated assets			64,348
Consolidated total assets	68,871,824	104,680	68,976,504
<b>Segment liabilities</b>			
Provisions of taxation	495,442	-	495,442
Loans and borrowings			43,863,435
Unallocated liabilities			4,691,490
Consolidated total liabilities			49,050,367

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 26 SEGMENTAL INFORMATION (Cont'd)

Group  
Financial year ended 30 June 2007

### Revenue

- External sales

- Other income

Total of all segments

Less : elimination

Consolidated revenue

Aircraft leasing £	Procurement business £	Total £
1,160,900	645,351	1,806,251
		97,100
		1,903,351
		(97,100)
		1,806,251

Group  
Financial year ended 30 June 2007

### Results

Segment results

Finance income

Finance expense

Unallocated corporate expenses

Profit before taxation

Taxation

Profit after taxation

Other segment items

Capital expenditure

- property, plant and equipment

Depreciation

Aircraft leasing £	Procurement business £	Total £
1,024,020	(23,863)	1,000,157
		8,950
		(188,365)
		(41,342)
		779,400
		(231,814)
		547,585
6,584,387	3,600	6,587,987
156,305	1,712	158,017

Group  
Financial year ended 30 June 2007

### Segment assets

Unallocated assets

Consolidated total assets

### Segment liabilities

Provisions of taxation

Loans and borrowings

Unallocated liabilities

Consolidated total liabilities

Aircraft leasing £	Procurement business £	Total £
9,761,497	82,562	9,844,059
		2,152,883
		11,996,942
455,901	70,108	526,009
		197,458
		6,305,466
		968,594
		7,997,527

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 26 SEGMENTAL INFORMATION (Cont'd)

### 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:

<u>Group</u> Financial year ended 30 June 2008	<b>Revenue</b> £	<b>Capital expenditure and valuation movements</b> £	<b>Total assets</b> £
Australia	4,737,644	13,714,516	23,448,780
United States	281,480	6,456,968	6,626,861
Denmark*	12,555	38,897,029	38,897,263
Singapore	-	-	3,600
Libya	-	-	-
Nigeria	-	-	-
Other	-	-	64,348
	<b>5,031,679</b>	<b>59,068,513</b>	<b>69,040,852</b>

<u>Group</u> Financial year ended 30 June 2007	<b>Revenue</b> £	<b>Capital expenditure and valuation movements</b> £	<b>Total assets</b> £
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
	<b>1,806,252</b>	<b>6,587,987</b>	<b>11,996,942</b>

<u>Group</u> Financial year ended 30 June 2008	<b>Net Book Value Aircraft</b> £
Australia	22,103,425
United States	6,418,583
Denmark*	38,897,029
	<b>67,419,037</b>

<u>Group</u> Financial year ended 30 June 2007	<b>Net Book Value Aircraft</b> £
Australia	9,471,658
United States	-
Denmark*	-
	<b>9,471,658</b>

\* Note: the capital expenditure in respect to Danish revenue was incurred on 30 June 2008 hence is disproportional.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 27 CONTINGENT LIABILITIES

	Group	
	30 June 2008	30 June 2007
	£	£
Guarantees	36,883,912	6,137,000

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

The Group has guaranteed the loans of its subsidiaries, Capital Lease Portfolio One Pty Ltd, Capital Lease Malta Ltd and F100 Pty Ltd.

## 28 CAPITAL COMMITMENT

	Group	
	30 June 2008	30 June 2007
	£	£
Estimated amounts committed for future capital expenditure but not provided for in the financial statements	-	2,446,000

## 29 COMPARATIVE FIGURES

The financial statements for 30 June 2008 cover the 12 months ended 30 June 2008. The financial statements for 30 June 2007 cover the financial period from the date of incorporation (11 July 2006) to 30 June 2007.

## 30 SUBSEQUENT EVENTS

Subsequent to the end of the financial period:

On 18th August 2008, the Company agreed to pay US \$6.4m for the purchase of a Fokker F100 aircraft, which it will lease out to Skywest Airlines Pty Ltd at a rate of \$106,000 per month plus maintenance reserves for 64 months. The Company will use its cash and finance facility to finance the purchase. The Company has secured a fixed interest US\$5,120,000 finance facility from an international equipment finance arm of a major British commercial bank. The salient terms of the finance facility are as follows:

- The facility has a 60-month expiry with total cost funds and margin interest fixed at 6.57%;
- The Facility will be fully amortizing in principle and interest over its term to expiry;
- There are no convertible to equity elements to the facility.

# Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

## 30 SUBSEQUENT EVENTS (cont'd)

On 8th October 2008, the Company's subsidiary, Capital Lease Avation PLC ("CLA") announced that it has been successful in obtaining a further finance facility for US \$100 million, with provision for a further US \$50m subject to a syndicated book build. The salient terms of the finance facility are as follows:

- (a) The facility is from a major European Bank and is a facility to provide a full recourse, senior secured, revolving warehouse facility (the "Facility") to partially fund the purchase price of assorted aircraft. The Facility is underwritten by the bank in the amount of US \$100m, with provision for an additional US \$50m which is subject to a syndicated book build;
- (b) The Facility is a revolving facility which allows drawings and re-drawings over a 2 year period with a 3 year term out;
- (c) The Facility has a 60-month expiry term with a senior margin of 2.25% above the banks cost of funds, which is at or about LIBOR. Drawings may be made up to 80% of the value of individual aircraft, with the balance being funded by CLA;
- (d) The use of proceeds is to purchase new generation Airbus A330-200 / 300, Airbus A320 family and Boeing 737 NG leased aircraft;
- (e) The security is in the form of a registered mortgage over each aircraft purchased using the facility.

## 31 NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

The group intends to apply these standards and interpretations when they become effective.

<b>International Accounting Standards (IAS/IFRS)</b>	<b>Effective Date*</b>
IFRS 2 Amendments to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3 Business Combinations (revised January 2008)	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IAS 1 Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23 Borrowing Costs (revised March 2007)	1 January 2009
IAS 27 Consolidated and Separate Financial Statement (Revised January 2008)	1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 12 Service Concession Arrangement	1 January 2008
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 July 2008

## 32 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 2008 were authorised for issue by the Board of Directors on 3 November 2008.



# Share Price Performance

31 October 2008



# Register of Top 20 Shareholders

(as at 29 September 2008)

Name of Shareholder	Holding (Number of shares)
FITEL NOMINEES LIMITED (RJ Chatfield et al)	3,179,490
FITEL NOMINEES LIMITED	2,809,128
FITEL NOMINEES LIMITED	2,500,000
APOLLO NOMINEES LTD	2,036,756
CREDIT SUISSE SECURITIES (EUROPE) LIMITED	1,583,244
LEHMAN BROTHERS INTERNATIONAL (EUROPE) IN ADMINISTRATION	1,100,000
LOEB ARON & COMPANY LTD	920,000
PERSHING NOMINEES LIMITED	778,828
FITEL NOMINEES LIMITED	700,000
FITEL NOMINEES LIMITED	640,712
HARGREAVE HALE NOMINEES LIMITED	606,500
FITEL NOMINEES LIMITED	550,000
HSBC CLIENT HOLDINGS NOMINEE (UK) LIMITED	360,000
J M FINN NOMINEES LIMITED	286,500
FITEL NOMINEES LIMITED	257,373
FITEL NOMINEES LIMITED	250,000
APPLE TREE NOMINEES LIMITED	223,000
FITEL NOMINEES LIMITED	210,000
FITEL NOMINEES LIMITED	200,000
TD WATERHOUSE NOMINEES (EUROPE) LIMITED	195,890

# Corporate Directory



## **DIRECTORS:**

RJ (Jeff) Chatfield

Andrew Baudinette

Richard Sinclair (appointed 16 July 2007 and resigned on 28 November 2007)

Bryant James McLarty (appointed 28 November 2007)

## **CORPORATE ADVISER:**

Loeb Aron & Company Ltd

Georgian House

63 Coleman Street

London EC2R 5BB

## **COMPANY SECRETARIES:**

Siobhan Cool

## **REGISTRARS:**

Computershare Investor Services PLC

P O Box 82

The Pavilions

Bridgewater Road

Bristol BS99 7NH

## **REGISTERED OFFICE:**

Georgian House

63 Coleman Street

London EC2R 5BB

## **AUDITORS:**

Kingston Smith LLP

Devonshire House

60 Goswell Road

London EC1M 7AD

## **BANKERS:**

Citibank NA

3 Temasek Avenue

#12-00 Centennial Tower

Singapore 039190

## **SOLICITORS:**

Speechly Bircham LLP

6 New Street Square

London EC4A 3LX

## **BROKERS:**

WH Ireland

224 Martin Lane

London EC4R 0DR

Tel: +44 (0) 20 7220 1666

*ava*tion PLC

**PLUS**

Index:

Sector:

Reuters/BBG

PLUS Markets

Transport

AVAPPZ

AVAP

[www.ovation.net](http://www.ovation.net)