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Contents

| | Page |
|--|------|
| Corporate Information | 1 |
| Financial Calendar | 1 |
| Executive Chairman's Statement | 2 |
| Financial Review | 4 |
| Report of the Directors | 5 |
| Corporate Governance | 7 |
| Statement of Directors' Responsibilities | 10 |
| Report of the Board on Remuneration | 11 |
| Independent Auditors' Report to the Shareholders | 13 |
| Consolidated Profit and Loss Account | 15 |
| Consolidated Balance Sheet | 16 |
| Company Balance Sheet | 17 |
| Consolidated Cash Flow Statement | 18 |
| Notes to the Cash Flow Statement | 19 |
| Notes to the Financial Statements | 20 |
| Notice of Annual General Meeting | 29 |
| Five Year Record | 30 |



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Corporate Information

Executive Directors

David L. Massie - Chairman
V. J. Maguire - Finance Director (Resigned 31 October 2002)

Non-Executive Directors

G. Peter L. Addison - (Appointed 1 February 2003)
Edmund P. H. Barber - (Appointed 16 December 2002)
Peter G. Glossop - (Retired 27 November 2002)
Christopher J. Spence - (Resigned 31 January 2002)

Audit Committee

G. Peter L. Addison
Edmund P. H. Barber

Remuneration Committee

G. Peter L. Addison
Edmund P. H. Barber

Nominations Committee

G. Peter L. Addison
Edmund P. H. Barber

Auditors

Chantrey Vellacott DFK
Russell Square House
10-12 Russell Square
London WC1B 5LF

Secretary and Registered Office

Edmund P. H. Barber
Fitzroy House
18-20 Grafton Street
London W1S 4DZ
Tel: 020 7647 1700
Fax: 020 7647 1710
Registered in England No. 2366568

Registrar and Transfer Office

Capita IRG Plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1BR

Stockbroker

Arbuthnot Securities Limited
2 Lambert Hill
London EC4V 4GG

Financial Advisers

Insinger de Beaufort (Corporate Finance) Limited
44 Worship Street
London EC2A 2JT

Principal Bankers

National Westminster Bank Plc
1 Princes Street
London EC2R 8PA

Financial Calendar

Annual General Meeting

3 December 2003

Interim Results

The Group results for the first six months of the financial year to 30 June 2004 are expected to be announced during March 2004.

Final Dividend

The Directors do not propose a final dividend for the year ended 30 June 2003.

Executive Chairman's Statement

Dear Shareholder

During the year we took a number of steps to recover from the severe downturn in the aviation market but turnover fell to £1.3 million (2002 - £4.0 million), the loss before tax was £1.5 million (2002 - profit £0.3 million) and the loss after tax £1.2 million (2002 - profit £0.2 million). No dividend is recommended (2002 - nil). The loss per share was 8.17p (2002 - earnings 1.56p).

Despite the loss for the year, a number of significant steps were achieved during the year in line with the Company's attempts to stabilise its business following the dramatic downturn in the aviation market. Specifically:

- All remaining bank debt was repaid.
- The Company's remaining property investment in Kiev was sold, thereby almost completing the Company's withdrawal from the Ukraine market.
- The Company administration was restructured to contract out all staff and services.
- Agreement was reached with Loyalward Group Plc relating to the Company's option and consequently a 4% stake in Loyalward Group Plc, an OFEX 'listed' company, was acquired.

General and other administrative expenses fell from £1.23 million in 2002 to £740,000 (before providing for a bad debt of £230,000) in the current year. In part, this reflects the revised administration procedures announced on 25 October 2002 whereby Massie & Co. took contractual responsibility for administration, including provision of the Chairman/Chief Executive's services, in return for a fixed fee. It is expected that the cost of administrative expenses will fall further in the current year to reflect the full year savings and the run-off of various other general expenses, ignoring the effect of the costs of disposing of the aviation assets outlined below.

Since the financial year end further progress has been made and in August 2003 the Company sold its Boeing 727-200 freighter on lease to Kitty Hawk Air cargo, Inc. for a price which overall will result in a profit against book value in the 2003/2004 financial year. In addition, in September 2003 delivery was made of the Company's remaining operational 727-200 passenger aircraft to a customer in Africa on lease for a three year term.

This means that the Company has only one further 727 cargo aircraft to dispose of. Another passenger aircraft is considered only fit for spares and is expected to be broken up and the parts taken into stock to be sold by the Company's wholly owned American subsidiary, Darwen Aircraft Services, Inc., based in Miami which was established during the year to act as warehousing and marketing agent for the Company's stock of aviation parts and surplus engines.

The aviation market remained severely depressed throughout the year and prices are at very low levels compared with those being experienced four or five years ago. An aircraft parked on the ground for any extended period not only incurs costs in storage and insurance but when the aircraft is returned to service there are often significant maintenance costs associated with such action. It has therefore been a priority for the Company to find customers and dispose of its remaining aircraft. With the surfeit of aircraft on the market, the Company has struggled to find customers for its fleet of aircraft but the two transactions since the year end assist substantially in bringing the process to an end.

The Company had its unsold operational aircraft appraised by external advisers as at 30 June 2003 and the Directors adopted those appraisals which led to a write down in the holding value as at that date of approximately £415,000.

The Company previously announced that it had disposed of its property at 6 Ivana Franka Street in Kiev and used the proceeds to repay bank debt. The Company's remaining exposure in Kiev is in relation to a debtor, recovery of which is linked to obtaining vacant possession of two adjacent buildings in Kiev. Vacant possession of one building has been obtained and court proceedings are in progress to obtain vacant possession of the second. It is hoped that this process can be completed during the current financial year.

As at 30 June 2003 the principal remaining assets of the Company can be summarised as:

- (a) The aircraft assets described above.
- (b) A portfolio of aviation spare parts and engines to be sold or used to support other operations.
- (c) Aviation debtors with a book value of £325,000 (some of which are overdue but which the Board hopes to collect during the current year).
- (d) The balance due from the sale of a property in Kiev of £180,000. Proceedings are in progress to obtain vacant possession of the property in order to receive the final instalment.

During the year, following consultations with the Company's financial advisor and stockbroker as to the future development of the Company, the Board discussed with a substantial overseas shareholder (holding 26% of the Company's shares) a restructuring of the balance sheet via a capital reduction as the first step towards the possible introduction of new capital and the acquisition of a trading business.

However, that shareholder stated his opposition to the Company's proposals as presented and in view of the ability of a 26% shareholder to defeat a special resolution in General Meeting, that idea cannot be progressed. The Company is therefore considering what options it has to strengthen its financial position for the future.

During the year, Christopher Spence, the Company's long standing senior Non-Executive Director, stepped down from the Board having reached the age of 65. Christopher was always available to advise the Board and not afraid to give his advice, even when it might not be exactly what the Executive Directors wished to hear. His contribution was much appreciated and the Company wishes him a long and healthy retirement.

During the year two new appointments were made to the Board. Firstly, Edmund Barber of Barber & Co., Chartered Accountants, who, through Massie & Co., provide accounting services to the Company. He is therefore well placed to guide the Company on financial matters, and secondly, Peter Addison who was formerly a Director of Insinger de Beaufort, the Company's financial advisor. Their contribution has already been made and will be important in seeing the Company through the next stage of its redevelopment. As they were appointed during the year Messrs. Addison and Barber will offer themselves for re-election at the forthcoming Annual General Meeting which will be held on 3 December 2003 at 9:00am at Fitzroy House, 18-20 Grafton Street, London W1S 4DZ.



David L. Massie
Executive Chairman
31 October 2003

Financial Review

The results for the year to June 2003 are set out in the profit and loss account on page 15 and the turnover analysis is shown in note 2 to the accounts.

Results

(a) Turnover

With the continued downturn in aviation, turnover has fallen to £1.3 million and there is further commentary on this in the Executive Chairman's Statement.

(b) Gross Profit

Gross profit has been reduced to 16.3% but a direct comparison with the previous year is not particularly meaningful.

(c) Administrative Expenses

(i) Administration expenses have been reduced as a result of the Company's revised administration procedures and it is expected that there will be further reductions during the coming year.

(ii) Impairment provisions have been made on owned assets on a basis consistent with the previous years.

(iii) Redundancy costs are an exceptional item for the year. The benefit of these costs have already started to show in reduced overheads.

Loss Per Ordinary Share

The loss per ordinary share amounts to 8.17p (2002 - 1.56p earnings).

Dividends

No dividends were paid or proposed during the year.

Taxation

There is no tax charge for the year under review and a credit arises in respect of previous year liabilities.

Fixed Assets

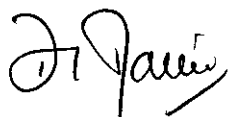
The Company made certain disposals of fixed assets during the year and these have been commented on in the Executive Chairman's Statement and are set out in more detail in note 10 to the accounts.

Cash Flow

Primarily as a consequence of the major disposals during the year the Company's cash flow was positive.

Debt

As set out in note 14 to the accounts the Company repaid all its outstanding bank debt during the year.



David L. Massie

Executive Chairman

31 October 2003

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 30 June 2003.

Principal Activities

The Group's continuing activity during the year was that of aircraft rental and trading, and financial services. The Company's other activities including property investment were much reduced during the year and in October 2002, the Company reorganised its administration so that it no longer has any employees.

Review of Business

The Executive Chairman's Statement gives a review of the current business and the results of the Group for June 2003 are set out on page 15. The Board does not recommend the payment of a dividend (2002 - nil).

Directors and their Interests

The following held office as Directors of the Company during the year:

| | |
|-------------------------|---|
| D. L. Massie | (Executive Chairman) |
| G. P. L. Addison | (Appointed 1 February 2003), who is 61 and a solicitor. He was formerly a Director of Insinger de Beaufort (Corporate Finance) Limited and English Trust Company Limited. He has provided corporate advice to a wide range of public and private companies for over 20 years. |
| E. P. H. Barber | (Appointed 16 December 2002), who is 57, and a chartered accountant with the firm Barber & Co. He has held a number of senior directorship posts in both public and private companies. |
| P. G. Glossop | (Retired 27 November 2002) |
| C. J. Spence | (Resigned 31 January 2003) |
| V. J. Maguire | (Resigned 31 October 2002) |

Substantial Interests

The Company has been advised of the following interests amounting to 3% or more of the issued share capital of the Company at 17 October 2003.

| | No. of Ordinary Shares | Percentage Holding |
|-----------------------|-----------------------------------|-------------------------------|
| D. L. Massie * | 6,473,206 | 42.71% |
| Bino Holdings Limited | 3,999,086 | 26.38% |
| W. F. Wanner Jnr. | 680,000 | 4.49% |

** A number of shares attributed to Mr. D. L. Massie are held in the name of Sandwood Limited, trusts and other entities in which Mr. Massie is deemed to have an interest.*

Charitable and Political Contributions

The Company made no political or charitable donations during the year (2002 - £nil).

Creditor Payment Policy

The Group does not follow a formal code of payment but endeavors to agree payment terms with each supplier when a relationship is established. Where this is not possible payment will usually be made by the end of the month following receipt of each accepted invoice.

Report of the Directors *(continued)*

Employment Policy

As a matter of principle, the Group is an equal opportunity employer and full and fair consideration is given to applications from disabled persons and to their career development and promotion. Every effort is made to retain the employment of those who become disabled but the Company currently has no employees disabled or otherwise.

Auditors

Howarth Clark Whitehill resigned as auditors during the year and Chantrey Vellacott DFK filled the vacancy arising. A resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.



Edmund P. H. Barber

Secretary

31 October 2003

Corporate Governance

Statement by the Directors on Compliance with the Provisions of the Combined Code

The Company has been in compliance with the provisions set out in the Combined Code throughout the year with the exception of the matters set out below.

The Board and its Committees

The Board currently comprises the Executive Chairman and two Non-Executive Directors whose details are set out in the Directors' Report. The Company does not comply with the provisions of the Combined Code because the size of the Company makes it impractical to divide the role of Chairman and Chief Executive Officer. The senior Non-Executive Director is Mr. Peter Addison. The Non-Executive Directors both have significant commercial, professional and other interests outside the Group.

The Company does not presently comply with provision A 6.2 of the Combined Code in that all Directors should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. A proposal to alter the Articles of Association of the Company was made at the Annual General Meeting in 2000 in order to rectify the matter but was defeated on a poll. Nevertheless the Board members do offer themselves for re-election in accordance with the Code provisions.

The Board is responsible to shareholders for the proper management of the Group. A statement of Directors' responsibilities in respect of the accounts is set out on page 10. The Board meets at least quarterly and is chaired by Mr. D. L. Massie.

Key areas of the Group's affairs which are dealt with by the Board as a whole include:

- Setting and monitoring of overall Group strategy.
- Examination and approval of all acquisitions and disposals of companies.
- Monitoring of financial and operating performance.
- Review and approval of operating budgets.
- Examination and approval of all major contracts.
- Ensuring adequate funding.
- Approval of major capital projects and asset disposals.

All Directors have full access to the advice and services of the Company Secretary and a procedure exists whereby any Director, wishing to do so in furtherance to his duties, may take independent professional advice. During the financial year ended 30 June 2003 no Director notified the Board that they had sought independent professional advice.

In order to discharge their duties, the Non-Executive Directors are provided with full and timely access to papers prior to Board meetings and the Directors are free to seek any further information they consider necessary. In addition, between Board meetings, the Executive Chairman and Company Secretary are in regular contact in order to progress the Company's business.

In view of its size the Company does not have an internal audit function but reviews its requirements annually. The current year review by the Directors concluded that because of the size of the Group's operations it is inappropriate to establish an internal audit function at this time.

Corporate Governance *(continued)*

The Board has established an Audit Committee whose members are the two Non-Executive Directors. The Audit Committee's duties are, inter alia, to consider the appointment and remuneration of the external auditors, to discuss the nature and scope of the audit, to review the half-year annual accounts and to discuss any matters arising from the audit. The Audit Committee is also responsible for monitoring the controls, which are in force to ensure the integrity of the information reported to the shareholders. Meetings are held not less than twice per annum.

As the Company no longer has any paid executive staff the Remuneration Committee has not met during the current period save to consider and subsequently approve the arrangements in October 2002 in relation to certain redundancies and re-organisation of the Company's administration.

The whole Board acts as the Nominations Committee in connection with recruitment and appointment of Directors.

The Report of the Board on Remuneration is set out on pages 11 and 12.

Relations with Shareholders

The Financial Review on page 4 and the Executive Chairman's Statement on pages 2 and 3 include a review of the business and future developments. There is regular dialogue with institutional shareholders.

The Board uses the Annual General Meeting to communicate with private and institutional shareholders and welcomes their participation. Details of resolutions to be proposed at the Annual General Meeting on 3 December 2003 can be found in the Notice of Meeting on page 29.

Internal Controls and Risk Management

The Board is responsible for establishing and monitoring the Group's system of internal control.

Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed, and by their nature can provide reasonable but not absolute assurance of:

- The safeguarding of assets against unauthorised use or disposition, and
- The maintenance of proper accounting records and establishing the reliability of financial information within the Group or for publication.

The key procedures, which the Board has established with a view to providing effective internal financial controls, are as follows:

- Management Structure

The Company currently has no employees.

- Investment Approval

Capital expenditure is regulated by the budgetary process and authorisation procedures. For expenditure beyond specified levels, detailed written proposals must be submitted to the Board for approval.

- Audit Committee

The Audit Committee monitors the internal financial controls that are in force and any perceived gaps in the internal financial control environment. The Audit Committee also considers and determines relevant action in respect of any control issues raised by internal reviews or by the external auditors. Legal and accounting developments are reported to the Audit Committee.

Corporate Governance *(continued)*

In addition, the Board regularly reviews the other risks which the business faces. In view of the size of the Company and the nature of its business, this process however has not been formalised into the comprehensive review and monitoring of risks envisaged by the "Turnbull" provisions of the Code and to this extent the Company has not fully complied with these requirements.

Effectiveness of Internal Financial Controls

The Audit Committee has reviewed the effectiveness of the systems of internal financial control as it operated during the year and up to the date the financial statements were approved and reported its conclusions to the Board.

Whilst recognising that no system of internal control can provide absolute assurance against misstatement or loss, the Directors believe that its procedures should ensure that, as far as possible, such events will not occur.

Going Concern

After making enquiries and reviewing working capital requirements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In forming that opinion the Board paid due regard to the assets that could be realised. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

In forming this opinion the Board has taken the view that resources available to the Group will be sufficient to continue trading at current levels.

Statement of Directors' Responsibilities

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 the Group and of the profit or loss of the Group for that period. In preparing those accounts 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.
- Prepare the accounts on the going concern basis unless it is inappropriate to assume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the state of affairs of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

The maintenance and integrity of the IAF Group Plc web site is the responsibility of the Directors. The work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Report of the Board on Remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced a new duty on the Directors of quoted Companies in respect of the disclosure of Directors' remuneration in relation to financial years ending on or after the 31 December 2002.

A resolution to approve this Report will be proposed at the Annual General Meeting of the Company at which the annual accounts for the year are adopted.

The above regulations also require that the auditors shall report to the Company's members on the auditable part of the Directors' Remuneration Report and state whether in their opinion that part of the Directors' Remuneration Report has been properly prepared in accordance with the Companies Act 1985. This Report has therefore been divided into separate sections for audited and unaudited information.

Remuneration Committee

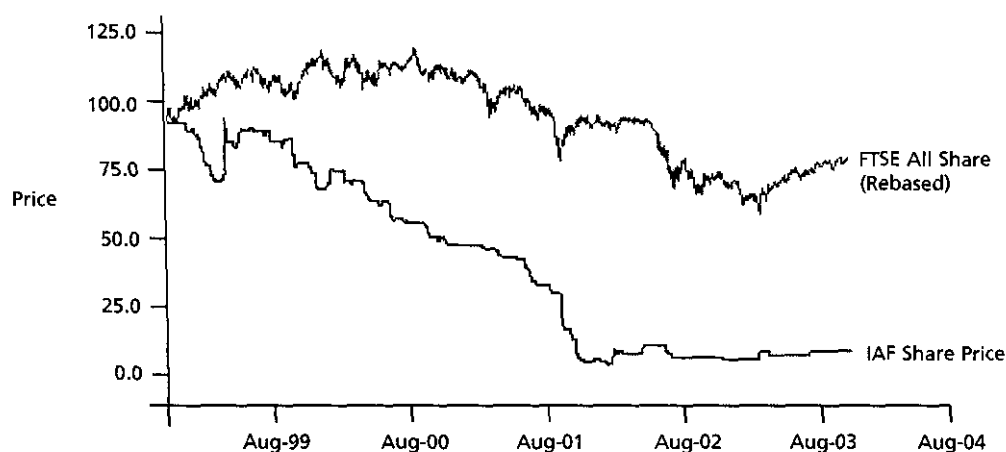
There has been a Remuneration Committee in operation for a number of years to determine the remuneration of the Directors of the Company. The members of the Committee during the year under review were Peter G. Glossop and Christopher J. Spence who have both resigned from the Board and subsequently G. Peter Addison and Edmund P. H. Barber who now constitute the Committee. The current members have not met as a Remuneration Committee since joining the Board.

Policy on Directors' Remuneration

The Company has no directly paid Executive Directors. The Non-Executive Directors' fees are determined by market conditions for the time necessarily spent on the Company's affairs and the necessary responsibilities of Directors in dealing with the nature of the Company's affairs. The Non-Executive Directors have no part in the discussions or decisions relating to their own fees.

Performance Graph

The following graph shows the Company's performance measured by total shareholder return compared with the FTSE All Share Index.



Report of the Board on Remuneration (continued)

Audited Information Directors' Emoluments

| | Fees and Basic Salary | Benefits | Pension Contributions | 2003 Total | 2002 Total |
|-----------------------|--------------------------------------|-----------------|----------------------------------|-----------------------|-----------------------|
| | £000 | £000 | £000 | £000 | £000 |
| David L. Massie | 71 | 8 | 14 | 93 | 279 |
| Compensation (Note 1) | 270 | - | - | 270 | - |
| V. James Maguire | 28 | 10 | - | 38 | 98 |
| Compensation (Note 2) | 100 | - | - | 100 | - |
| Peter G. Glossop | 6 | - | - | 6 | 15 |
| Christopher J. Spence | 9 | - | - | 9 | 15 |
| G. Peter L. Addison | 5 | - | - | 5 | - |
| Edmund P. H. Barber | 8 | - | - | 8 | - |

NOTES

1. Provision is made for compensation payable to Mr. Massie in respect of the termination of his service contract. Mr. Massie continued as a Director of the Company but with effect from 1 November 2002 his services are provided through Massie & Co., a partnership (see Note 20 to the Financial Statements).
2. Compensation was paid to V. James Maguire when he left the Company's employ on 31 October 2002.

Directors' Interests in the Share Capital

| | | 2003 | Ordinary Shares 2002 |
|------------------|----------------------------|-------------|---------------------------------|
| D. L. Massie | | 6,473,206 | 6,473,206 |
| V. J. Maguire | (Resigned 31 October 2002) | - | 13,437 |
| P. G. Glossop | (Retired 27 November 2002) | - | 15,833 |
| C. J. Spence | (Resigned 31 January 2003) | - | 8,700 |
| G. P. L. Addison | | - | - |
| E. P. H. Barber | | - | - |

The shareholding of D. L. Massie includes 51,475 shares held by a family trust in which he has a beneficial interest and 3,999,085 held by a company in which he is deemed to have an interest.

There have been no changes in the Directors' shareholdings since 30 June 2003.

Share Options

There were no share options granted during the year and there are none outstanding.

This report was approved by the Board of Directors on 31 October 2003 and signed on its behalf.


Edmund P. H. Barber

Remuneration Committee

Independent Auditors' Report to the Shareholders

We have audited the financial statements of IAF Group Plc for the year ended 30 June 2003 which comprise the consolidated profit and loss account, consolidated balance sheet, balance sheet, consolidated cash flow statement and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is disclosed as having been audited.

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinions as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, a financial review, the Directors' Report, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report to the Shareholders *(cont.)*

Basis of Audit Opinion

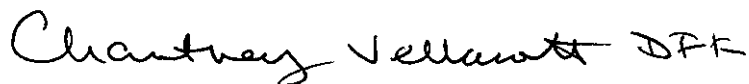
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 and the audited part of the Director's Remuneration Report.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2003 and of the loss of the Group for the year then ended; and
- The financial statements and the audited part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985.



CHANTREY VELLACOTT DFK

Chartered Accountants

Registered Auditors

LONDON

31 October 2003

Consolidated Profit and Loss Account

For the year ended 30 June 2003

| | Note | Year to 30 June 2003 £000 | Year to 30 June 2002 £000 |
|--|-----------|------------------------------------|------------------------------------|
| Turnover | 2 | 1,337 | 3,987 |
| Cost of sales | | (1,119) | (2,593) |
| Gross profit | | 218 | 1,394 |
| Administrative expenses | | | |
| Administrative expenses | | (970) | (1,231) |
| Profit on derivative contract | | - | 208 |
| Revaluation and impairment of investment properties and investments | | 61 | (151) |
| Impairment provision against tangible fixed assets | | (415) | (1,101) |
| Release of profit share participation | | - | 1,229 |
| | | (1,324) | (1,046) |
| Operating (loss)/profit before operating exceptionals | | (1,106) | 348 |
| Operating exceptional item | | | |
| - Redundancy costs | | (441) | - |
| Operating (loss)/profit | | (1,547) | 348 |
| Profit on disposal of tangible fixed assets | | 102 | 54 |
| (Loss)/profit on ordinary activities before interest and taxation | | (1,445) | 402 |
| Interest receivable | | 20 | 21 |
| Interest payable | 3 | (47) | (76) |
| (Loss)/profit on ordinary activities before taxation | 4 | (1,472) | 347 |
| Taxation on (loss)/profit on ordinary activities | 7 | 233 | (111) |
| (Loss)/profit on ordinary activities after taxation | 8 | (1,239) | 236 |
| Dividends | | - | - |
| Retained (loss)/profit for the financial year | 17 | (1,239) | 236 |
| Basic and diluted (loss)/profit per ordinary share | 9 | (8.17p) | 1.56p |
| Dividends per share | | - | - |

Statement of total recognised gains and losses

For the year ended 30 June 2003

| | Note | 2,003 £000 | 2002 £000 |
|---|-----------|----------------|--------------|
| (Loss)/profit for the year | | (1,239) | 236 |
| Prior year adjustment | | - | 435 |
| Total (losses)/gains recognised since last Annual Report | 18 | (1,239) | 671 |

Consolidated Balance Sheet

as at 30 June 2003

| | Note | 2003 £000 | 2002 £000 |
|--|------|----------------|----------------|
| Fixed Assets | | | |
| Tangible assets | 10 | 3,363 | 6,107 |
| Investments | 11 | 19 | 99 |
| | | 3,382 | 6,206 |
| Current Assets | | | |
| Debtors | 12 | 450 | 834 |
| Investments | 13 | 354 | 56 |
| Assets held for resale | | 150 | 55 |
| Cash at bank and in hand | 19 | 312 | 453 |
| | | 1,266 | 1,398 |
| Creditors | | | |
| Amounts falling due within one year | | | |
| Debt | 14 | - | (1,571) |
| Other | 15 | (2,602) | (2,748) |
| Net current liabilities | | (1,336) | (2,921) |
| Total assets less current liabilities | | 2,046 | 3,285 |
| Capital and reserves | | | |
| Called up share capital | 16 | 15,157 | 15,157 |
| Share premium account | 17 | 4,658 | 4,658 |
| Other reserves | 17 | (5,515) | (5,515) |
| Profit and loss account | 17 | (12,254) | (11,015) |
| Equity Shareholders' funds | | 2,046 | 3,285 |

The financial statements were approved by the Board of Directors on 31 October 2003

Signed on behalf of the Board


David L. Massie

Company Balance Sheet

as at 30 June 2003

| | Note | 2003 £000 | 2002 £000 |
|--|------|----------------|----------------|
| Fixed Assets | | | |
| Tangible assets | 10 | - | 19 |
| Investments | 11 | 4,282 | 6,555 |
| | | 4,282 | 6,574 |
| Current Assets | | | |
| Debtors | 12 | 10 | 73 |
| Cash at bank and in hand | | 78 | 31 |
| | | 88 | 104 |
| Creditors | | | |
| Amounts falling due within one year | | | |
| Debt | 14 | - | (1,531) |
| Other | 15 | (2,324) | (1,862) |
| Net Current Liabilities | | (2,236) | (3,289) |
| Total assets less current liabilities | | 2,046 | 3,285 |
| Capital and reserves | | | |
| Called up share capital | 16 | 15,157 | 15,157 |
| Share premium account | 17 | 4,658 | 4,658 |
| Profit and Loss account | 17 | (17,769) | (16,530) |
| Equity Shareholders' funds | | 2,046 | 3,285 |

The financial statements were approved by the Board of Directors on 31 October 2003.

Signed on behalf of the Board


David L. Massie

Consolidated Cash Flow Statement

for the year ended 30 June 2003

| | Note | 2003 £000 | 2002 £000 |
|--|------------|--------------|----------------|
| Net cash inflow/(outflow) from operating activities | 1 | 296 | (1,092) |
| Returns on investments and servicing of finance | | | |
| Interest received | | 20 | 21 |
| Interest paid | | (47) | (76) |
| | | (27) | (55) |
| Taxation | | | |
| UK corporation tax paid | | 65 | (47) |
| Overseas taxation | | (9) | (11) |
| | | 56 | (58) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (12) | (202) |
| Sale of tangible fixed assets | | 1,117 | 722 |
| Sale of investments | | - | 145 |
| | | 1,105 | 665 |
| Equity dividends paid | | - | - |
| Financing | | | |
| Capital element of finance lease rentals | | (9) | (23) |
| | | (9) | (23) |
| Increase/(decrease) in cash | 2,3 | 1,421 | (563) |

Notes to the Cash Flow Statement

for the year ended 30 June 2003

1 Reconciliation of operating (loss)/profit to net cash inflow/(outflow) from operating activities

| | 2003 £000 | 2002 £000 |
|--|----------------|----------------|
| Operating(loss)/profit | (1,547) | 348 |
| Depreciation of tangible fixed assets | 795 | 1,057 |
| Impairment of tangible fixed assets | 415 | 1,101 |
| Impairment of fixed asset investments | 80 | 151 |
| Foreign exchange adjustment to tangible fixed assets | 430 | - |
| Decrease/(increase) in debtors | 384 | (195) |
| Decrease in assets held for resale | 6 | 505 |
| (Increase) in current asset investments | (298) | (67) |
| Release of profit share participation | - | (1,229) |
| Increase/(decrease) in creditors | 31 | (2,763) |
| Net cash inflow/(outflow) from operating activities | 296 | (1,092) |

2 Analysis of net debt

| | 1 July 2002 £000 | Cash Flow £000 | 30 June 2003 £000 |
|---|------------------------|----------------------|-------------------------|
| Cash at bank and in hand | 453 | (141) | 312 |
| Bank overdrafts | (1,562) | 1,562 | - |
| Changes in cash | (1,109) | 1,421 | 312 |
| Hire purchase obligations due within one year | (9) | 9 | - |
| Hire purchase obligations due after one year | - | - | - |
| Changes in debt | (9) | 9 | - |
| Changes in net debt | (1,118) | 1,430 | 312 |

3 Reconciliation of net cash flow to movement in net debt

| | 2003 £000 | 2002 £000 |
|--|----------------|----------------|
| Increase/(decrease) in cash | 1,421 | (563) |
| Cash outflow from debt and hire purchase finance | 9 | 23 |
| Movement in net debt in the year | 1,430 | (540) |
| Net debt at start of the year | (1,118) | (578) |
| Net cash balances/(debt) at end of year | 312 | (1,118) |

Notes to the Financial Statements

1. ACCOUNTING POLICIES

(a) Convention

The financial statements have been prepared in accordance with the historical cost convention modified by the revaluation of fixed asset investment properties and listed investments and in accordance with applicable UK Accounting Standards. The principal accounting policies that the Directors have adopted within that convention are set out below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 30 June 2003.

(c) Foreign currency translation

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the rates of exchange ruling at that date, subject to any financial instruments that are applicable. These translation differences are dealt with in the profit and loss account.

(d) Turnover

Turnover represents fees, lease rentals, disposals of leased equipment, commission and trading income receivable and income derived from hire purchase and other asset finance agreements.

(e) Finance leases and hire purchase agreements

The amounts due from finance leases and hire purchase agreements are recorded in the balance sheet at the amount of the net investment in the agreements after making provision for items such as bad and doubtful rentals receivable. Total gross earnings are allocated to accounting periods to give a constant periodic rate of return on the groups net investment.

(f) Taxation

The credit/charge for taxation is based on the results for the year and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes, including available losses. Deferred taxation is provided in full under the liability method except that deferred taxation assets are recognised only to the extent that the Directors consider it more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(g) Tangible fixed assets and depreciation and impairment

For tangible fixed assets depreciation is calculated to write down their cost other than investment properties to their estimated residual values by equal annual instalments over the period of their remaining estimated useful lives which are considered to be:

Operating lease equipment

Aircraft - 5 Years

Notes to the Financial Statements *(continued)*

Impairment provisions are made against aircraft where the recoverable value of any aircraft falls below their depreciated carrying amount measured in US\$. The effect of exchange fluctuates in this respect is dealt with as a foreign exchange profit or loss.

(h) Investments

Listed investments are valued at the middle market value at the balance sheet date. Unlisted investments are stated at market value where an organized market exists. Other investments (including investments in subsidiary undertakings and the Company's own shares) are included at cost, less provision for any impairment in value.

(i) Pension schemes

The company contributed to a personal pension scheme and a funded unapproved retirement benefit scheme for a senior Director. Pension fund payments are charged to the profit and loss account as they are incurred.

(j) Operating leases

Operating lease rentals payable are charged to the profit and loss account as incurred. Operating lease rentals receivable are credited to the profit and loss account on a straight line basis over the lease period.

(k) Aircraft Maintenance

Advance payments received from customers in respect of repair and maintenance of major components of certain fixed wing aircraft are held in the balance sheet until such expenditure is incurred. Other component overhaul costs are charged to operating costs as incurred.

(l) Assets held for resale

Assets held for resale are stated at the lower of cost or net realisable value.

(m) Financial instruments

Transactions are undertaken in derivative financial instruments ("derivatives") to reduce exposure to foreign exchange risks and interest rate movements. These transactions include interest rate swaps, cross-currency swaps, futures, equity derivatives, options and similar instruments for trading and non-trading purposes.

Forward foreign currency contracts are treated as hedges where they are related to actual foreign currency assets or liabilities. Gains or losses arising from these contracts are taken to the profit and loss account in line with the transactions which they are hedging.

Notes to the Financial Statements (continued)

2 TURNOVER AND SEGMENTAL ANALYSIS

| | 2003 £000 | 2002 £000 |
|---|----------------|--------------|
| Segmental Information | | |
| Turnover | | |
| Aviation | 1,122 | 2,558 |
| Property | 207 | 1,357 |
| Other Financial Services and Investments | 8 | 72 |
| | 1,337 | 3,987 |
| (Loss)/profit before taxation | | |
| Aviation | (615) | 922 |
| Property | 257 | 654 |
| Other Financial Services and Investments | 63 | 25 |
| Non attributable overhead | (1,177) | (1,254) |
| | (1,472) | 347 |
| Net Assets | | |
| Aviation | 2,070 | 3,414 |
| Property | - | 870 |
| Other Financial Services and Investments | 456 | (738) |
| | 2,526 | 3,546 |
| Non-attributable liabilities | (480) | (261) |
| | 2,046 | 3,285 |
| Segmental information by geographical area | | |
| Turnover | | |
| North America | 932 | 1,162 |
| Africa | 190 | 923 |
| United Kingdom | 8 | 859 |
| Rest of Europe | 207 | 1,043 |
| | 1,337 | 3,987 |
| (Loss)/profit before taxation | | |
| North America | (615) | 742 |
| Africa | - | 287 |
| United Kingdom | 63 | 460 |
| Rest of Europe | 257 | 112 |
| | (295) | 1,601 |
| Non attributable overhead | (1,177) | (1,254) |
| | (1,472) | 347 |
| Net assets | | |
| North America | 2,049 | 3,448 |
| Africa | 325 | 437 |
| United Kingdom | (328) | (1,816) |
| Rest of Europe | - | 1,216 |
| | 2,046 | 3,285 |
| 3 INTEREST PAYABLE | | |
| Bank loans and overdrafts repayable within one year | 47 | 75 |
| Hire purchase contracts | - | 1 |
| | 47 | 76 |

Notes to the Financial Statements (continued)

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| 4 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | |
| Is arrived at after charging / (crediting) : | | |
| Depreciation of owned fixed assets | 795 | 1,043 |
| Depreciation of leased fixed assets | - | 14 |
| Auditors' remuneration - audit | 17 | 25 |
| - other | - | 16 |
| Profit on disposal of fixed assets | (102) | (54) |
| Operating lease rentals - land and buildings | 42 | 85 |
| Operating lease rentals receivable | (1,090) | (1,206) |

The impairment provision against tangible fixed assets is calculated in accordance with accounting policy note I(g).

5 STAFF COSTS

The average number employed by the Group, including executive directors, was 2 (2002 - 4).

The aggregate remuneration of employees, including executive directors, comprised : -

| | | |
|----------------------------|-----|-----|
| Wages and salaries | 113 | 388 |
| Social Security costs | 14 | 56 |
| Other pension costs | 28 | 84 |
| | 155 | 528 |
| Operating exceptional item | | |
| - Redundancy costs | 424 | - |
| | 579 | 528 |

Employee Share Ownership Plan :

The Company operates an Employee Share Ownership Plan ("ESOP"). The ESOP is funded by the Company to purchase shares in IAF Group Plc and has been created to allow shares to be made available by the trustees to employees exercising their options under the ESOP. At 30 June 2003 the ESOP owned 346,029 shares (2002 - 346,029) representing 2.3% (2002 - 2.3%) of the total shares in issue. The market value of the shares held by the ESOP at 30 June 2003 was £19,000 (2002 - £16,000). The total advances to the Trust, including costs to the trustees, at 30 June 2003 was £281,000 (2002 - £281,000). Under the terms of the ESOP trust deed, the ESOP trustees are indemnified in respect of any costs, expenses, losses or other shortfalls in assets arising out of the ESOP's activities. Costs relating to the ESOP are borne by the Company.

In December 2000 conditional gifts of 180,000 shares in the Company were made to employees, exercisable after three years, however as part of redundancy terms agreed with staff in October 2002 140,000 of these were cancelled. The cost of the shares expected to be awarded under the plan are amortised evenly over the period from the original grant of the particular award to the time of vesting. This is normally a period of not less than three years.

6 DIRECTORS' REMUNERATION

a) Directors' remuneration (excluding compensation for loss of office and redundancy)

| | Fees | Salaries | Benefits in kind | Pension contribution | Total | Total |
|-------------------------|--------------|--------------|---------------------|-------------------------|--------------|--------------|
| | 2003 £000 | 2003 £000 | 2003 £000 | 2003 £000 | 2003 £000 | 2002 £000 |
| Executive Directors | | | | | | |
| DL Massie | - | 71 | 8 | 14 | 93 | 279 |
| VJ Maguire | - | 28 | 10 | - | 38 | 98 |
| Non-Executive Directors | | | | | | |
| PG Glossop | 6 | - | - | - | 6 | 15 |
| CJ Spence | 9 | - | - | - | 9 | 15 |
| E Barber | 8 | - | - | - | 8 | - |
| P Addison | 5 | - | - | - | 5 | - |
| | 28 | 99 | 18 | 14 | 159 | 407 |

b) Redundancy Costs

Include £100,000 compensation paid to V J Maguire on 31 October 2002 when he left the Company's employment and a provision for £270,000 payable to D L Massie as compensation in respect of the termination of his executive employment contract, such payment being subject to conditions related to the company's repayment of its borrowings.

Notes to the Financial Statements (continued)

6 DIRECTORS' REMUNERATION (continued)

c) Management Services Contract.

With effect from 1 November 2002 management and administrative services have been provided by Massie & Co, a partnership in which D L Massie has an interest. Full details are at note 20.

d) Pension Entitlement

Mr D L Massie is the sole member of the David Massie Funded Unapproved Retirement Benefit Scheme to which the Company has in previous years made an annual contribution.

The pension cost charge represents contributions payable by the Company to Mr D L Massie's personal pension plan and Funded Unapproved Retirement Benefit Scheme. Details of directors' interests in the capital of the Company and other matters are given in the Report of the directors.

7 TAXATION

| | 2003 £000 | 2002 £000 |
|------------------------------|--------------|--------------|
| a) Analysis of tax charge | | |
| Current year taxation | | |
| UK corporation tax | - | 100 |
| Overseas tax | 9 | 11 |
| Deferred tax | - | - |
| | 9 | 111 |
| Prior years | | |
| UK corporation tax | (242) | - |
| | (233) | 111 |

b) Factors affecting the tax charge for the period

- No tax credit is accounted for on the loss for the year
- The prior year credit reflects tax losses agreed for earlier years reducing the group tax liability.

c) The actual current tax charge differs from the UK standard rate of 30% for the reasons set out below:-

| | | |
|---|---------|-----|
| (Loss)/profit on ordinary activities before taxation | (1,472) | 347 |
| Tax on (loss)/profit on ordinary activities at standard rate | (442) | 104 |
| Depreciation, impairment and foreign exchange adjustments to fixed assets in excess of capital allowances | 220 | - |
| Withholding tax not recoverable | 9 | 11 |
| Permanent differences and potential deferred tax asset not recognised | 140 | (4) |
| Change in provisions | 170 | - |
| Non-taxable profit on sale of fixed assets | (31) | - |
| Utilisation of tax losses brought forward | (57) | - |
| Current year tax charge | 9 | 111 |

d) Deferred tax assets amounting to £3,067,000 (2002 - £2,186,000) have not been recognised. These assets arise from the availability of losses and deferred tax assets eligible for capital allowances. The recoverability of the assets is principally dependent on the generation of future taxable profits in those companies with losses.

Notes to the Financial Statements (continued)

8 (LOSS)PROFIT IN ORDINARY ACTIVITIES AFTER TAXATION

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Dealt with in the accounts of the parent undertaking | (1,239) | 671 |

The Company has taken advantage of s230 Companies Act 1985 and consequently a profit and loss account for the Company alone is not presented.

9 EARNINGS PER ORDINARY SHARE

The calculation of basic loss per share of 8.17p (2002 - profit of 1.56p) is based on the Group loss of £1,239,000 (2002 - profit £236,000) and on the weighted average number of ordinary shares in issue during the year of 15,156,945 (2002 - 15,156,945). It has been determined that there are no dilutive effects arising from unexercised share options or warrants.

10 TANGIBLE FIXED ASSETS

| Group | Investment Properties £000 | Operating Lease Aircraft £000 | Equipment Fixtures & Fittings £000 | Total £000 |
|-----------------------------|----------------------------------|--|---|---------------|
| Cost or valuation : | | | | |
| At 1 July 2002 | 1,000 | 17,786 | 142 | 18,928 |
| Additions | - | - | 12 | 12 |
| Foreign exchange adjustment | - | (949) | - | (949) |
| Disposals | (1,000) | (5,326) | (15) | (6,341) |
| At 30 June 2003 | - | 11,511 | 139 | 11,650 |
| Depreciation : | | | | |
| At 1 July 2002 | - | 12,700 | 121 | 12,821 |
| Disposals | - | (5,225) | - | (5,225) |
| Foreign exchange adjustment | - | (519) | - | (519) |
| Impairment provision | - | 415 | - | 415 |
| Charge | - | 787 | 8 | 795 |
| At 30 June 2003 | - | 8,158 | 129 | 8,287 |
| Net book value : | | | | |
| At 30 June 2003 | - | 3,353 | 10 | 3,363 |
| At 30 June 2002 | 1,000 | 5,086 | 21 | 6,107 |
| Company | | | Equipment Fixtures & Fittings £000 | |
| Cost : | | | | |
| At 1 July 2002 | | | | 139 |
| Disposals | | | | (15) |
| At 30 June 2003 | | | | 124 |
| Depreciation : | | | | |
| At 1 July 2002 | | | | 120 |
| Disposals | | | | - |
| Charge | | | | 4 |
| At 30 June 2003 | | | | 124 |
| Net book value : | | | | |
| At 30 June 2003 | | | | - |
| At 30 June 2002 | | | | 19 |

Notes to the Financial Statements (continued)

11 FIXED ASSET INVESTMENTS

| Group | Own Shares £000 | Other Investments £000 | Total £000 |
|------------------------|-----------------------|------------------------------|---------------|
| Cost : | | | |
| At 1 July 2002 | 276 | 176 | 452 |
| Disposals | - | - | - |
| At 30 June 2003 | 276 | 176 | 452 |
| Amounts provided: | | | |
| At 1 July 2002 | 260 | 93 | 353 |
| Charge for the year | (3) | 83 | 80 |
| At 30 June 2003 | 257 | 176 | 433 |
| Net book value: | | | |
| At 30 June 2003 | 19 | - | 19 |
| At 30 June 2002 | 16 | 83 | 99 |

| Company : | Advances to Subsidiary Undertakings £000 | Investments in Subsidiary Undertakings £000 | Own Shares £000 | Other Investments £000 | Total £000 |
|------------------------------|---|--|-----------------------|------------------------------|---------------|
| Cost : | | | | | |
| At 1 July 2002 | 25,223 | 304 | 276 | 186 | 25,989 |
| Additions | 13 | - | - | - | 13 |
| Disposals | (966) | (1) | - | - | (967) |
| At 30 June 2002 | 24,270 | 303 | 276 | 186 | 25,035 |
| Amounts provided: | | | | | |
| At 1 July 2002 | 18,788 | 283 | 260 | 103 | 19,434 |
| Charge/(credit) for the year | 1,239 | - | (3) | 83 | 1,319 |
| At 30 June 2002 | 20,027 | 283 | 257 | 186 | 20,753 |
| Net book value : | | | | | |
| At 30 June 2003 | 4,243 | 20 | 19 | - | 4,282 |
| At 30 June 2002 | 6,435 | 21 | 16 | 83 | 6,555 |

Details of the Company's principal subsidiary undertakings are as follows:

| Name of Company | Country of Incorporation | Interest in ordinary shares | Nature of Business |
|---------------------------------|-----------------------------|-----------------------------------|-------------------------------------|
| Subsidiary undertakings : | | | |
| IAF Securities Ltd | England | 100% * | Dealing Company |
| International Asset Finance Ltd | England | 100% * | Asset Finance & Advisory Services |
| Wren Equipment Finance Ltd | England | 100% * | Leasing, Finance and Rental Company |
| Darwen Aircraft Services Inc | USA | 100% * | Aircraft spare parts stockists |

* Held through wholly owned intermediate group undertakings.

12 DEBTORS

| Group : | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Amounts due within one year : | | |
| Trade debtors | 114 | 324 |
| Net investment in hire purchase contracts | 326 | 437 |
| Other debtors | - | 17 |
| Prepayments and accrued income | 10 | 56 |
| | 450 | 834 |
| Company: | | |
| Amounts due within one year : | | |
| Other debtors | - | 20 |
| Prepayments and accrued income | 10 | 53 |
| | 10 | 73 |
| The aggregate rentals receivable from hire purchase contracts during the year by the Group were | 627 | - |

Notes to the Financial Statements (continued)

13 CURRENT ASSET INVESTMENTS

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Group : | | |
| Investments listed on a recognised stock exchange at middle market value | 354 | 56 |
| The historic cost of the listed investments was £159,000 (2002 - £5,000). | | |

14 CREDITORS - DEBT ANALYSIS

| | | |
|--|---|-------|
| Due within one year | | |
| Group : | | |
| Bank overdraft | - | 1,562 |
| Obligations under finance leases and hire purchase contracts | - | 9 |
| | - | 1,571 |
| Company : | | |
| Bank overdraft | - | 1,522 |
| Obligations under finance leases and hire purchase contracts | - | 9 |
| | - | 1,531 |
| The above debt is repayable as follows : | | |
| Group : | | |
| Due within one year | - | 1,571 |
| Between one and two years | - | - |
| | - | 1,571 |

15 CREDITORS - amounts falling due within one year - other

| | | |
|------------------------------------|-------|-------|
| Group : | | |
| Other creditors | 9 | 162 |
| Trade creditors | 70 | 171 |
| Corporation tax | 887 | 1,064 |
| Other tax and social security | - | 40 |
| Accruals and deferred income | 866 | 561 |
| Advance payments | 770 | 750 |
| | 2,602 | 2,748 |
| Company : | | |
| Amounts owed to group undertakings | 1,717 | 1,471 |
| Trade creditors | - | 59 |
| Other creditors | - | 9 |
| Other tax and social security | - | 37 |
| Accruals and deferred income | 607 | 286 |
| | 2,324 | 1,862 |

16 SHARE CAPITAL

| | 2003 Number | 2002 Number | 2003 £000 | 2002 £000 |
|-------------------------------------|----------------|----------------|--------------|--------------|
| Authorised : | | | | |
| Ordinary shares of £1 each | 18,000,000 | 18,000,000 | 18,000 | 18,000 |
| Allotted, called up and full paid : | | | | |
| Ordinary shares of £1 each | 15,156,945 | 15,156,945 | 15,157 | 15,157 |

17 RESERVES

| | Share Premium Account £000 | Other Reserves £000 | Profit & Loss £000 |
|----------------------------|----------------------------------|---------------------------|--------------------------|
| Group : | | | |
| At 1 July 2001 | 4,658 | (5,515) | (11,015) |
| Retained loss for the year | - | - | (1,239) |
| At 30 June 2003 | 4,658 | (5,515) | (12,254) |
| Company : | | | |
| At 1 July 2002 | 4,658 | - | (16,530) |
| Retained loss for the year | - | - | (1,239) |
| At 30 June 2003 | 4,658 | - | (17,769) |

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | | |
|--------------------------------------|--------------|--------------|
| Group and Company: | | |
| | 2003 £000 | 2002 £000 |
| Opening shareholders' funds | 3,285 | 3,049 |
| (Loss)/profit for the financial year | (1,239) | 236 |
| Closing Shareholders' funds | 2,046 | 3,285 |

Notes to the Financial Statements (continued)

19 CONTINGENT LIABILITIES AND COMMITMENTS

Included within cash at bank and in hand in the balance sheet is an amount of £108,000 represented by a four year term US\$ deposit with an overseas bank. The deposit acts as security for the repayment of a loan from the bank to AeroRepublica S.A., a company in which a 15.0% shareholding was previously held.

20 RELATED PARTY TRANSACTIONS

Under the terms of an agreement dated 21st October 2002 between the company and Massie & Co, a partnership in which Mr D L Massie has an interest, all management and administrative services are provided to the company by Massie & Co for a monthly fee of £30,000.

The contract commenced with effect from 1st November 2002 and is subject to 6 months notice on the company's part and 12 months notice on the part of the partnership.

During the year Messrs. Barber & Co, Chartered Accountants, of which Mr E Barber is sole proprietor, provided taxation compliance services to the company for fees of £8,000.

21 FINANCIAL INSTRUMENTS

At the year end the group had no borrowings and therefore no related currency or interest rate exposure.

In previous years the main risks arising from the Group's financial exposures were dealt with through interest rate and currency derivatives.

(1) Interest Rate Risk

Financial Liabilities:

The floating rate financial liabilities comprised bank borrowings with interest rates set at periods between the day and the month. At 30 June 2003 the £ sterling liabilities were £Nil and the US\$ liabilities were £Nil (2002- £sterling £1,531,000 US\$ £400,000). All liabilities were subject to floating rates of interest and the reference rate for these floating rate liabilities were linked to rates determined on the benchmark rate for each country which issued the currency.

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Financial Assets: | | |
| The Group held the following financial assets: | | |
| Interest bearing: | | |
| Sterling cash | 168 | 132 |
| \$US cash | 144 | 453 |
| | 312 | 585 |
| Non-interest bearing | | |
| \$US unlisted investments | - | 83 |
| Sterling investments | 354 | 56 |
| | 354 | 139 |

Cash and deposits are placed on short-term maturities at relevant market rates for the maturities concerned. All interest bearing items are at floating rates.

(2) Currency risk

Forward currency contracts have in the past been used to manage exposure to fluctuations in currency rates. There were no such contracts in place at 30th June 2003 and therefore the Group is exposed to changes in the £/US\$ exchange rate, principally arising as aircraft are normally valued and traded in US\$. Gains or losses arising under these contracts are taken to the profit and loss account in line with the transactions that they are hedging. Including short term debtors and creditors, and taking into account the effects of any currency swaps entered into to manage the currency exposures. The Group had net monetary assets, denominated in US Dollars, of £40,000 at 30 June 2003 (2002 - £34,000).

(3) Hedging

The group's policy has been to hedge structural and transactional currency exposures on future expected sales, using forward foreign currency contracts. No such contracts were however in place at 30th June 2003.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. A hedge on \$10m of assets matured during the year and the profit realised matched against the exposures covered by the contract.

(4) Liquidity risk

The group has no borrowings at 30th June 2003 nor were there any undrawn committed facilities.

(5) Fair value

The fair value of the Group's financial assets and liabilities at 30 June 2003 is not materially different from the book value.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of IAF Group plc will be held at Fitzroy House, 18-20 Grafton Street, London W1S 4DZ at 9.00 a.m. on Wednesday 3 December 2003 for the following purposes:

Ordinary Business

1. To receive the Report of the Directors and the audited financial statements for the year ended 30 June 2003.
2. To approve the Report of the Board on Remuneration for the financial period to 30 June 2003.
3. To re-elect G. Peter L. Addison as a Director of the Company.
4. To re-elect Edmund P. H. Barber as a Director of the Company.
5. To re-appoint Chantrey Vellacott DFK as auditors until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.

By Order of the Board

E. P. H. Barber

Secretary

Fitzroy House

18-20 Grafton Street

London W1S 4DZ



Notes

1. A member entitled to attend and vote may appoint a proxy to attend and vote on a poll instead of him.
2. A proxy need not be a member of the Company.
3. A Form of Proxy for use by ordinary shareholders is enclosed which, if required, should be completed in accordance with the instructions set out therein.
4. Completion and return of a proxy form will not preclude the appointer from attending and voting in person at the meeting.
5. There will be available for inspection at the registered office of the Company on any weekday (except Saturday) during normal business hours from the date of this notice until the day of the Annual General Meeting and at the place of the Annual General Meeting for a period of fifteen minutes prior to and during the Annual General Meeting copies of contracts of service, between Directors and the Company; the register of Directors interests in shares of the Company kept in accordance with Section 325 of the Companies Act 1985.

ORDINARY SHAREHOLDERS ARE ENTITLED TO ATTEND, OR BE REPRESENTED, AND TO VOTE ON ALL RESOLUTIONS AT THE MEETING.

Five Year Record

| | 2003 £m | 2002 * £m | 2001 £m | 2000 £m | 1999 £m |
|----------------------------------|------------|--------------|------------|------------|------------|
| Turnover | 1.34 | 3.99 | 3.99 | 7.12 | 15.38 |
| (Loss)/profit before tax | (1.47) | 0.35 | (12.18) | (2.63) | (0.55) |
| (Loss)/profit after tax | (1.24) | 0.24 | (11.80) | (2.63) | (0.55) |
| Tangible fixed assets | 3.36 | 6.11 | 8.73 | 14.83 | 24.11 |
| Ordinary shareholders funds | 2.05 | 3.29 | 3.05 | 15.00 | 18.46 |
| Per £1 ordinary share (in pence) | 13.50 | 21.67 | 20.12 | 98.98 | 121.77 |
| Shareholders' funds | (8.17) | 1.56 | (77.86) | (17.79) | (3.17) |
| Basic earnings | - | - | 1.00 | 5.00 | 7.45 |
| Dividends | - | - | - | - | - |
| Gearing | - | 33% | 19% | 15% | 47% |

Gearing is calculated as the percentage of net borrowings to the sum of ordinary shareholders' funds.

* restated