IAF GROUP PLC

Annual Report & Accounts 2006

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Corporate Information

Executive Directors
David L. Massie – Executive Chairman
Graham B. Ashley (appointed 13 February 2006)

Non-Executive Directors
Edmund P. H. Barber
Menno de Jager (appointed 13 February 2006)
G. Peter L. Addison (resigned 13 February 2006)

Audit Committee
David L. Massie
Edmund P. H. Barber
Menno de Jager

Remuneration Committee
Edmund P. H. Barber
Menno de Jager

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

Principal Bankers
National Westminster Bank Plc
1 Princes Street
London EC4A 3LN

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London SW1Y 6LD
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Fax: 020 7389 1777
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Registrar and Transfer Office
Neville Registrars Limited
18 Laurel Lane
Halesowen
West Midlands B63 3DA

Stockbroker
Fox-Pitt Kelton Limited
30 St Mary Axe
London EC3A 8EP

Nominated Advisor
City Financial Associates Limited
Pountney Hill House
6 Laurence Pountney Hill
London EC4R 0BL

Financial Calendar

Annual General Meeting
Thursday 21 December 2006 at 10.00 a.m. at 117 Jermyn Street, London SW1Y 6HH.

Interim Results
The Group results for the first six months of the financial year to 31 December 2006 are expected to be announced during March 2007.

Final Dividend
The Directors do not propose a final dividend for the year ended 30 June 2006.

Executive Chairman's Statement

Dear Shareholder

The year ended 30 June 2006 was a very significant one for your Company in which we undertook various of the steps contemplated in last year's annual report, with the objective of the rejuvenation of the Company.

The highlights were the authorisation of our wholly owned subsidiary IAF Securities Limited ("IAFS") by the Financial Services Authority ("FSA") as a stockbroking company, with a Chapter 10 Part A licence, giving permission to undertake a wide range of corporate finance, investment management and private client stockbroking services. This was accompanied by a fundraising to institutional and other shareholders raising £6 million to strengthen the Company's balance sheet, discharge certain obligations, fund development costs of the stockbroker and provide a capital base for future development.

The FSA authorisation was given on 20 February 2006 and in April 2006 we completed contracts to take new premises at 117 Jermyn Street, London SW1Y 6HH to house our stockbroking operations. A period of rapid development then took place and IAFS moved to its new home at the end of June 2006.

IAFS became a member of the London Stock Exchange on 26 May 2006.

Since then much effort has been expended on the implementation of our computer systems, where we have adopted an outsourcing model for settlements using OMX Securities Limited (part of the OMX Group, which also owns the Swedish Stock Exchange). Since year end, our first team of private client stockbrokers has joined and IAFS became fully operational a short while ago.

We believe our private client stockbroking business has a significant opportunity to build a quality business. The IAFS motto is "**Old Fashioned Values in a Modern Environment**" and we seek to deliver a level of personal service which has been largely forgotten in recent times, as major houses have concentrated on moving their clients into collective investment products and removing the individual discretion of the stockbroker to advise his client. This is backed up by highly sophisticated computer systems, enabling clients to view, over encrypted access to the internet, details of their account, including not only real time portfolio valuations but trading history, taxation and cash positions. Shareholders may wish to visit the website, www.iafsecurities.com, to see the basics and of course we would always be happy to discuss opening accounts with shareholders should they wish.

Our corporate finance business got off to a quicker start than our private client stockbroking business and has already completed its first transactions. We have been approved as an adviser on Ofex and have accepted our first appointment. We have acted as joint financial adviser on two AIM transactions and our application to become a nominated advisor ("Nomad"), so that we may take on a more primary role in relation to advising AIM companies, is currently being considered by the London Stock Exchange. We are beginning to build up a substantial pipeline of work-in-progress and regard the gaining of Nomad status as very important to that process.

Future plans for the Group involve expansion into related wealth management areas, including real estate, tax planning, personal financial services and banking services. Development of these divisions will be phased in over time.

The financial results for the year to 30 June 2006 are contained in the annual report and reflect the policy we have adopted (in accordance with International Accounting Standards) of writing off, as incurred, all the development and establishment costs associated with the establishment of the stockbroker and gaining FSA authorisation. We believe this is best practice and will provide a clearer picture in due course. The loss before taxation was £1,449,000 (2005 – £835,000) and the loss per share 4.80p (2005 – 5.51p). No dividend is recommended.

Executive Chairman's Statement continued

During the reorganisation phase, the Company incurred certain liabilities to myself but I agreed, as part of the reorganisation in February 2006, that I would link repayment of those sums to the realisation of cash from the "old" assets of the Group, prior to the reorganisation. These old assets primarily consist of the rump of our aviation assets. The Group has decided to take a very prudent view of the value of these assets as at 30 June 2006 and write them down to a nominal amount. As the payments to myself are linked to the realisation of such, that creditor has been correspondingly reduced. Should the assets yield in the future sums greater than the outstanding payments to myself, the Group will receive the entire benefit of such surplus.

Having the infrastructure to build our stockbroking business largely in place, I have been pleased by the initial reaction from clients, both to our corporate finance and private client stockbroking services. The biggest challenges facing us at the current time are to secure Nomad approval and to recruit further private client stockbrokers to our team. We have developed an innovative model that rewards stockbrokers based upon their efforts and we are selective in relation to those individuals that join us. The disadvantage of this approach is that often such individuals are highly prized and may have restrictive covenants or long gardening leave provisions within their existing contracts, which delays their ability to join us. We therefore anticipate that it will be the second half of our financial year before we can gain sufficient critical mass to start to generate the returns that we would wish for.

All of your Board of Directors are shareholders in the Company. All the Directors of IAFS are not only shareholders in the Group but have been granted performance driven option packages related both to their personal performance and to the attainment of a given level of profitability within IAFS.

The challenge therefore is for the management team to deliver upon the hopes and expectations of all shareholders and I look forward to reporting to you further on progress. Our interim announcement is expected to be made in March 2007.

Yours sincerely

D. L. Massie

David L. Massie
Executive Chairman

23 October 2006

Financial Review

The results for the year to 30 June 2006 are set out in the Group income statement on page 15 and the turnover analysis is shown in note 2 to the accounts on page 20.

Results

It has been a year of change for the Company and the income from aviation continues to diminish but, during the last few months of the year, revenues were earned by the financial services and broking subsidiary.

Operating loss

We have continued to incur administrative expenses on the run-off of the aviation business and the new subsidiary accounts for the major development costs up to the year end.

Other income

The Group had no borrowings at the year end and all interest is from cash balances held. Revaluation in the Group income statement refers to the increase in current market values where an open market is made in investments.

Loss per ordinary share

The loss per ordinary share amounts to 4.80p (2005 – 5.51p).

Dividends

No dividends have been proposed or paid during the year.

Taxation

There is no tax charge for the year under review and the Group has substantial tax losses carried forward.

Group fixed assets

The Group's aviation assets are now valued on a "for sale" basis and are no longer reported under note 8 in the accounts. All the major additions during the year refer to the investment in new technology and the fitting out of the new Group offices.

David L. Massie
Executive Chairman

23 October 2006

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 30 June 2006.

Principal activities

During the early part of the year, after a successful fundraising, the wholly owned subsidiary, IAF Securities Limited, was authorised by the Financial Services Authority to act as a stockbroker and became a member of the London Stock Exchange on 26 May 2006. Following FSA authorisation, the principal activity of the Group has become that of stockbroking and wealth management. Activity in aircraft rental and trading for the Group continues but at a low level.

Review of business

The Chairman's Statement reviews the Group's fundraising and its membership of the Stock Exchange and FSA authorisation. The Board does not recommend the payment of a dividend (2005 – nil).

Directors and their interests

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

David L. Massie	Aged 51 – Executive Chairman – David was the founder of the Group. He is an experienced company director, who has held directorships in a variety of sectors including leisure, fluid systems, financial services, leasing, property, investment holding, aviation and international trading. During the year under review he resigned as chairman and a director of Meon Capital plc and, after the year end, of Scott Tod plc, both companies then traded on AIM, following takeovers of both.
Graham B. Ashley	Aged 59 – Executive Director – Graham has more than 30 years experience in stockbroking and finance and was a founding director of Greg Middleton Holdings Limited (stockbrokers). He has advised on acquisitions and disposals and fundraisings across a wide range of sectors and industries and was, until recently, a consultant with Arbuthnot Securities Limited. Since year end, he has resigned as chairman of A. Cohen & Co. plc and Quintessentially English Plc but remains a non-executive director of Crimson Tide plc and DermaSalve Sciences plc.
Menno de Jager	Aged 50 – Non-Executive Director – Menno joined the Board immediately prior to the fundraising earlier in the year and is currently a Vice Chairman of ABN Amro Bank NV. He started his career with Amro Bank in 1977 as a dealer in bonds and equities and has since worked in London and Amsterdam. From July 1996 until 2004, he was joint Chief Executive of ABN Amro Rothschild.
Edmund P. H. Barber	Aged 60 – Non-Executive Director – Edmund is a chartered accountant with the firm Barber & Co. He has held a number of senior directorship posts in both public and private companies. He specialises in acquisition and disposal work and corporate taxation.
G. Peter L. Addison	Aged 64 – Non-Executive Director – Peter, a qualified solicitor, stepped down from the Board upon taking the position of Head of Corporate Finance for IAF Securities Limited on 13 February 2006.

The Directors' interests in the share capital of the Company are shown on page 12.

Report of the Directors continued

Substantial interests

The Company has been advised of the following interests amounting to 3 per cent. or more of the issued share capital of the Company at 11 October 2006.

	No. of ordinary shares	*Percentage holding*
David L. Massie*	17,478,781	29.99
C. F. Group Holding Limited	17,478,781	29.99
N. Azam	2,020,000	3.47

** 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 (2005 – £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.

Employment policy

The Group is an equal opportunity employer. Employment is based on ability and not prejudiced by disability, age or sex. Every effort is made to retain the employment of those who become disabled whilst in our employ.

Auditor

In accordance with Section 354 of the Companies Act 1985 a resolution to reappoint Chantrey Vellacott DFK LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Edmund P. H. Barber
Secretary
23 October 2006

Corporate Governance

The Company's shares are now traded on the Alternative Investment Market (AIM), a market operated by the London Stock Exchange plc, and the Company is therefore not required to comply with the provisions of the Combined Code. The Directors however, continue to support the principles of the Combined Code and confirm that the Company seeks to comply with the Code as far as is appropriate, having regard to the relatively small size of the Group and its stage of development.

Matters reserved for the Board

- The Board has reserved, for its decision alone, all matters to do with the corporate structure and appointments to the holding company. It also takes a direct involvement in all subsidiary board appointments and the structure of subsidiaries.
- The Board is the sole decision maker on the Company's strategic policies, its diversification, ethics and shareholder meetings.
- All transactions and disposals of major assets and subsidiaries of the Group are under the Board's direct control and investments and major capital spending is agreed at the holding company level.

Finance

The Board retains all the powers in connection with:

- the raising of new monies;
- the preparation and approval of the interim and annual accounts; and
- the appointment of auditors and any recommendations for dividends.

General

Due to the size and geographical location of the subsidiaries' office to head office, the Board is in daily contact with its subsidiaries and does this through the Executive and Non-Executive Directors on a regular basis.

Audit Committee

The Company has an Audit Committee comprising the Non-Executive Directors and the Chairman. Mr. de Jager chairs the Committee. There has been one meeting during the year and all the members attended.

In view of its size, the Group 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.

Remuneration Committee

The Remuneration Committee consists of the Non-Executive Directors and is chaired by Mr. Barber, and met on three occasions this year to consider Executive Directors' remuneration and option grants to Group staff. The report on Directors' Remuneration is set out on pages 11 and 12.

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

Relations with shareholders

The Executive Chairman's Statement on page 3 and the Financial Review on page 5 include a review of the business and future developments. There is regular dialogue with institutional shareholders.

Corporate Governance continued

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 21 December 2006 can be found in the Notice of Annual General Meeting on page 27.

The Company has operated a website (www.iafgroup.com) with certain background and financial information for some years. It is the Board's intention that during the current financial year this be upgraded and expanded to include details of the Board's policies on Corporate Governance and the terms of reference of the Group's various Committees.

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.

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 Report of the Directors and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

The maintenance and integrity of the IAF Group plc website is the responsibility of the Directors. The work *carried out by the auditor does not involve the consideration of these matters and, accordingly, the auditor* accepts no responsibility for any changes that may have occurred in the financial statements since they were initially presented on the website. 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. Each Director has taken all steps that they ought to have taken as Directors in order to make themselves aware of any information relevant to the audit and to ensure that the auditor is aware of all relevant audit information. As far as each Director is aware, there is no relevant audit information of which the Group's auditor is unaware.

Directors' Remuneration Report

Remuneration Committee

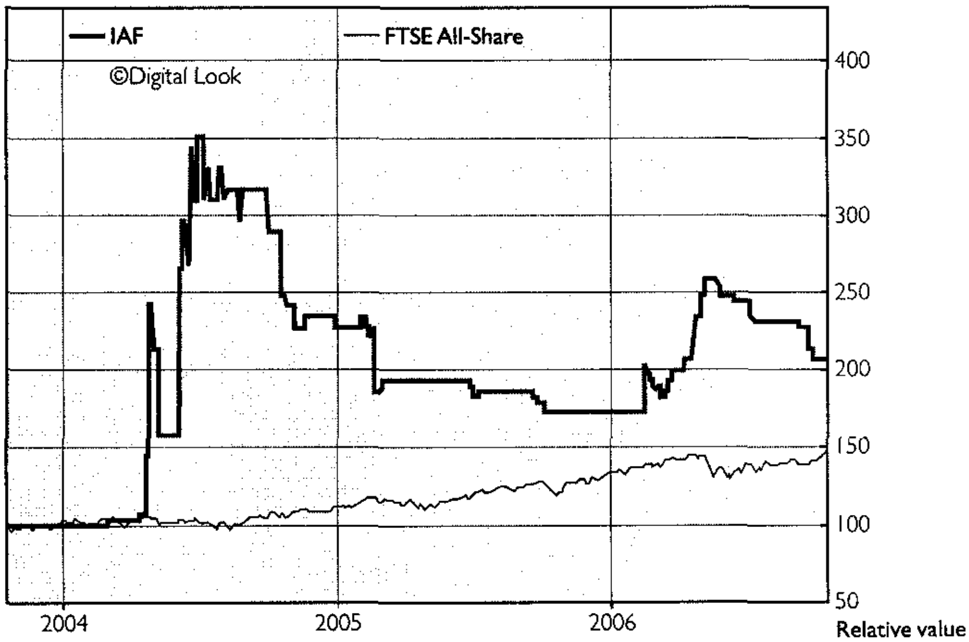
There has been a Remuneration Committee in operation for a number of years to determine the remuneration of the Directors of the Company. The members of the Committee during the year under review were G. Peter L. Addison (resigned 13 February 2006), Edmund P. H. Barber and Menno de Jager (appointed 13 February 2006). The Remuneration Committee met three times during the year.

Policy on Directors' remuneration

The Non-Executive Directors' fees are set by the remainder of the Board, having consideration to market conditions and to time necessary on Company 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.



Directors' Remuneration Report (continued)

Directors' emoluments	Fees and basic salary £000	Benefits £000	Pension contributions £000	2006 Total £000	2005 Total £000
David L. Massie (Note 1)	–	–	–	–	–
Graham B. Ashley (appointed 13 February 2006)	22	–	–	22	–
Edmund P. H. Barber	16	–	–	16	15
Menno de Jager (appointed 13 February 2006)	9	–	–	9	–
G. Peter L. Addison (resigned 13 February 2006)	20	–	–	20	12

NOTES

1. Under the terms of an agreement effective 1 November 2002 and varied with effect from 1 March 2006, management and administrative services are provided by Massie & Co., a partnership in which Mr. D. L. Massie has an interest. Full details are at note 18 to the financial statements.

Directors' interests in the share capital	Ordinary Shares 2006	Ordinary Shares 2005
David L. Massie	17,478,781	6,473,206
Graham B. Ashley (appointed 13 February 2006)	1,000,000	89,285
Edmund P. H. Barber	200,000	57,000
Menno de Jager (appointed 13 February 2006)	357,000	–
G. Peter L. Addison (resigned 13 February 2006)	89,285	25,000

The shareholding of David L. Massie includes 51,475 shares held by a family trust in which he has a beneficial interest and 14,000,000 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 2006.

Share Options

Share options were granted to the Directors on the Company being admitted to AIM and they are as follows:

	Options granted	Exercise price
David L. Massie	see note 1	
Graham B. Ashley	1,900,000	14p
Edmund P. H. Barber	250,000	14p
Menno de Jager	250,000	14p

NOTES

1. Prior to Admission to AIM, Massie & Co. entered into a Variation Agreement with the Group where *inter alia* it was granted options over such number of new ordinary shares equivalent to 1 per cent. of the fully valued share capital of the Company from time to time. Exercisable at 14p, for a period of ten years from Admission, subject to earnings per share before amortisation of goodwill, having been at least 5p per share for at least two consecutive financial years as disclosed in the audited accounts. Such options will also become exercisable within fourteen days in the event of a change of control of the Company. Massie & Co. has undertaken to the Board that it will not exercise options in such a manner as will cause the shareholding of David L. Massie (including any related parties) to exceed 29.99 per cent.

This report was approved by the Board of Directors on 23 October 2006 and signed on its behalf.

Edmund P. H. Barber
Remuneration Committee

Independent Auditor's Report

TO THE SHAREHOLDERS

We have audited the Group and parent company financial statements ("the financial statements") of IAF Group plc for the year ended 30 June 2006 which comprise the Group income statement, the Group and Company balance sheets, the Group cash flow statement, and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Executive Chairman's Statement, the Financial Review, the Report of the Directors, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 and 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 Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group 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.

Independent Auditor's Report continued

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's and parent company's affairs as at 30 June 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

Chantrey Vellacott DFK LLP

CHANTREY VELLACOTT DFK LLP
Chartered Accountants
Registered Auditor
LONDON

23 October 2006

Group Income Statement
for the year ended 30 June 2006

	Note	2006 £000	2005 £000
Revenue	2	105	367
Cost of sales		(152)	(381)
Gross loss		(47)	(14)
Administrative expenses		(195)	(498)
Impairment provision against tangible fixed assets		–	(455)
Profit on disposal of tangible fixed assets		–	25
Release of provision		–	265
Share of associated company loss		(120)	(106)
Development costs		(1,298)	–
Operating loss		(1,660)	(783)
Interest receivable		64	3
Revaluation and impairment of investments		147	(51)
Interest payable		–	(4)
Loss on ordinary activities before taxation	3	(1,449)	(835)
Taxation	5	–	–
Loss on ordinary activities after taxation		(1,449)	(835)
Dividends		–	–
Retained loss for the financial year		(1,449)	(835)
Loss per ordinary share	7	(4.80p)	(5.51p)

There was no recognised income or expenditure other than for the two financial years as set out above and therefore no separate statement of total recognised income and expenditure is presented.

The Group's results shown above are derived entirely from continuing operations.

There is no difference between the results reported and their historical cost equivalents.

Group Balance Sheet

as at 30 June 2006

	Note	2006 £000	2005 £000
Non-current assets			
Property, plant and equipment	8	790	380
Current assets			
Trade and other receivables	10	159	217
Investments	11	546	361
Assets held for resale		566	59
Cash and cash equivalents		3,507	85
		4,778	722
Total assets		5,568	1,102
Current liabilities			
Trade and other payables	12	(1,211)	(881)
Total liabilities		(1,211)	(881)
Net assets		4,357	221
Capital and reserves			
Called up share capital	13	583	152
Share premium account	14	5,215	–
Own shares	14	(103)	(42)
Profit and loss account	14	(1,338)	111
Equity shareholders' funds	15	4,357	221

The financial statements were approved by the Board of Directors on 23 October 2006.

Signed on behalf of the Board.

David L. Massie

Company Balance Sheet

as at 30 June 2006

	Note	2006 £000	2005 £000
Non-current assets			
Property, plant and equipment	8	608	–
Investments	9	2,505	2,375
		3,113	2,375
Current assets			
Trade and other receivables	10	191	17
Investments	11	528	–
Cash and cash equivalents		1,576	11
		2,295	28
Total assets		5,408	2,403
Current liabilities			
Trade and other payables	12	(1,051)	(2,182)
Total liabilities		(1,051)	(2,182)
Net assets		4,357	221
Capital and reserves			
Called up share capital	13	583	152
Share premium account	14	5,215	–
Own shares	14	(103)	(42)
Profit and loss account	14	(1,338)	111
Equity shareholders' funds	15	4,357	221

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David L. Massie

Group Cash Flow Statement

for the year ended 30 June 2006

	Note	2006 £000	2005 £000
Net cash outflow from operating activities	17	(1,399)	(293)
Investing activities			
Purchase of plant and equipment		(790)	–
Purchase of investments		(92)	–
Purchase of own shares		(44)	–
Interest received		64	3
Interest paid		–	(4)
Sale of plant and equipment		–	39
Net cash (used in)/from investing activities		(862)	38
Cash flows from financing activities			
Proceeds of issues of share capital		5,646	–
Proceeds of sale of investments		37	–
Net cash from financing activities		5,683	–
Increase/(decrease) in cash and cash equivalents		3,422	(255)

Notes to the Group Financial Statements

for the year ended 30 June 2006

1. Accounting policies

(a) *Basis of accounting*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. Under IFRS there are no differences between the previous reported losses and the total equity and hence no reconciliations have been prepared. The financial statements have been prepared on the historical cost basis, except for the revaluation of listed investments.

(b) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 30 June 2006.

(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 Group income statement.

(d) *Revenue*

Revenue 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) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged so as to write down their cost to estimated residual values over their estimated useful lives using the straight line method, on the following basis:

Property fixtures	– 10 per cent.
Plant and equipment	– 20 per cent.
Computers and IT equipment	– 33 per cent.

(f) *Investments*

Listed investments are valued at the middle market value at the balance sheet date. Unlisted investments are stated at market value where an organised market exists.

(g) *Operating leases*

Operating lease rentals payable are charged to the income statement as incurred. Operating lease rentals receivable are credited to the income statements on a straight line basis over the lease period.

(h) *Assets held for resale*

Aviation division assets held for resale are stated at the lower of cost or net realisable value.

(i) *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.

Notes to the Group Financial Statements continued

for the year ended 30 June 2006

2. Revenue and segmental analysis

	2006 £000	2005 £000
Segmental information		
Revenue		
Aviation	83	367
Other financial services and investments	22	–
	105	367
Loss before taxation		
Aviation	(167)	(527)
Other financial services and investments	(1,234)	31
Non-attributable overhead	(48)	(339)
	(1,449)	(835)
Net assets		
Aviation	556	614
Other financial services and investments	4,357	403
	4,913	1,017
Non-attributable liabilities	(556)	(754)
	4,357	263
Segmental information by geographical area		
Revenue		
North America	83	355
Africa	–	–
United Kingdom	22	–
Rest of Europe	–	12
	105	367
Loss before taxation		
North America	(167)	154
Africa	–	(227)
United Kingdom	(1,234)	(423)
	(1,401)	(496)
Non-attributable overhead	(48)	(339)
	(1,449)	(835)
Net assets		
North America	14	116
Africa	542	523
United Kingdom	3,801	(376)
	4,357	263

Notes to the Group Financial Statements continued

for the year ended 30 June 2006

3. Loss on ordinary activities before taxation

Is arrived at after charging/(crediting):

	2006 £000	2005 £000
Depreciation of owned fixed assets	2	244
Auditor's remuneration	25	18
Operating lease rentals – land and buildings	70	–
Operating lease rentals receivable	(35)	(266)

4. Staff costs

The average number employed by the Group, including Executive Directors, was 5 (2005 – 1).

	2006	2005
Wages and salaries	222	–
Social security costs	26	–
Other pension costs	7	–
	255	–

5. Taxation

Analysis of tax charge

	2006	2005
Current year taxation		
Overseas tax	–	–
Deferred tax	–	–
	–	–

The current tax charge differs from the UK standard rate of 30 per cent. for the reasons set out below:

	2006	2005
Loss on ordinary activities before taxation	(1,449)	(835)
Tax on loss on ordinary activites at standard rate	(435)	(251)
Depreciation, impairment and foreign exchange adjustments to fixed assets in excess of capital allowances	–	14
Potential deferred tax asset relating to losses carried forward not recognised	435	237
Current year tax charge	–	–

Deferred tax assets amounting to £4,573,000 (2005 – £4,228,000) have not been recognised.

These assets arise from the availability of losses and eligible capital allowances. The recoverability of the assets is principally dependent on the generation of future taxable profits in those companies with losses.

6. Loss on ordinary activities after taxation

	2006	2005
Dealt with in the accounts of the parent undertaking	(1,449)	(835)

The Company has taken advantage of Section 230 Companies Act 1985 and consequently an income statement for the Company alone is not presented.

Notes to the Group Financial Statements continued

for the year ended 30 June 2006

7. Loss per ordinary share

The calculation of loss per share of 4.80p (2005 – 5.51p) is based on the Group loss of £1,449,000 (2005 – £835,000) and on the weighted average number of ordinary shares in issue during the year of 30,162,355 (2005 – 15,156,945). In the opinion of the Directors, there were no dilutive instruments at the balance sheet date.

8. Property, plant and equipment

Group	*Operating lease aircraft £000*	*Equipment, fixtures and fittings £000*	*Total £000*
Cost or valuation:			
At 1 July 2005	6,818	139	6,957
Additions	–	790	790
Foreign exchange adjustment	453	–	453
Transfer to assets for resale	(7,271)	(12)	(7,283)
At 30 June 2006	–	917	917
Depreciation:			
At 1 July 2005	6,442	135	6,577
Foreign exchange adjustment	428	–	428
Charge	–	2	2
Transfer to assets for resale	(6,870)	(10)	(6,880)
At 30 June 2006	–	127	127
Net book value:			
At 30 June 2006	–	790	790
At 30 June 2005	376	4	380

Company	*Equipment, fixtures and fittings £000*
Cost:	
At 1 July 2005	124
Additions	608
At 30 June 2006	732
Depreciation:	
At 1 July 2005 and 30 June 2006	124
Net book value:	
At 30 June 2006	608
At 30 June 2005	–

Notes to the Group Financial Statements continued

for the year ended 30 June 2006

9. Investments

Company	Advances to subsidiary undertakings £000	Investments in subsidiary undertakings £000	Total £000
Cost:			
At 1 July 2005	21,905	303	22,208
Additions	459	599	1,058
At 30 June 2006	22,364	902	23,266
Amounts provided:			
At 1 July 2005	19,544	289	19,833
Charge for the year	928	–	928
At 30 June 2006	20,472	289	20,761
Net book value:			
At 30 June 2006	1,892	613	2,505
At 30 June 2005	2,361	14	2,375

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

Name of Company	*Country of Incorporation*	*Percentage interest in ordinary shares*	*Nature of business*
Subsidiary undertakings:			
IAF Securities Ltd	England	100*	Stockbroker and Securities Company
International Asset Finance Ltd	England	100*	Asset Finance and 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.

Associate

The Group has a 40 per cent. interest in Destiny Air Services Limited, a company registered and operating in Sierra Leone. The company is a start-up and has an air operators licence. Destiny Air Services Limited has been funded by way of loans from the investing parties. Loans outstanding and due to IAF Group plc and its subsidiaries amount to £226,000, all of which has been fully provided against.

10. Trade and other receivables

	2006 £000	2005 £000
Group		
Trade debtors	63	156
Amount due from associated company	–	44
Prepayments and accrued income	65	4
Other debtors	31	13
	159	217

Notes to the Group Financial Statements continued

for the year ended 30 June 2006

10. Trade and other receivables continued

	2006 £000	2005 £000
Company		
Other debtors	12	13
Amount due from Group undertakings	127	–
Prepayments and accrued income	52	4
	191	17

11. Current asset investments

	2006 £000	2005 £000
Group		
Investments listed on recognised stock exchanges at middle market value	546	361
Company		
Investments listed on recognised stock exchanges at middle market value	528	–

12. Trade and other payables

	2006 £000	2005 £000
Group		
Other creditors	203	329
Trade creditors	22	35
Social Security and other taxes	32	–
Accruals and deferred income	954	517
	1,211	881
Company		
Other creditors	203	329
Trade creditors	–	35
Amounts owed to Group undertakings	–	1,343
Accruals and deferred income	848	475
	1,051	2,182

13. Share capital

	2006 Number	2005 Number	2006 £000	2005 £000
Authorised				
Ordinary shares of 1p each	1,800,000,000	1,800,000,000	18,000	18,000
Allotted, called up and full paid				
Ordinary shares of 1p each	58,282,779	15,156,945	583	152

On 9 November 2005 the Company issued 267,855 ordinary shares at a subscription price of 14p per share in consideration of services supplied to the Group.

On 28 February 2006 the Company made two placings of shares totalling 42,857,979 ordinary shares at a price of 14p per share.

13. Share capital continued

IAF Share Option Scheme

Under the terms of the IAF Share Option Plan, an unapproved share option scheme constituted by a deed dated 13 February 2006, options over 8,445,674 ordinary shares have been granted to Directors and staff.

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 2006 the ESOP owned 581,029 shares (2005 – 306,029 shares) representing 1.0 per cent. (2005 – 2.0 per cent.) of the total shares in issue. The market value of the shares held by the ESOP at 30 June 2006 was £103,000 (2005 – £42,000). The total advances to the Trust, including costs to the trustees, at 30 June 2006 was £325,000 (2005 – £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. No conditional gifts of shares were outstanding at 30 June 2006.

14. Reserves

	Share premium account £000	*Own shares £000*	*Profit and loss £000*
Group and Company			
At 1 July 2005	–	(42)	111
Arising in the year	5,215	(17)	–
Acquired in the year	–	(44)	–
Retained loss for the year	–	–	(1,449)
At 30 June 2006	5,215	(103)	(1,338)

15. Reconciliation of movement in equity shareholders' funds

Group and Company	*2006 £000*	*2005 £000*
Opening shareholders' funds	221	1,025
Loss for the financial year	(1,449)	(835)
Proceeds of share issue	5,646	–
Purchase own shares	(44)	–
Movement in value of own shares	(17)	31
Closing shareholders' funds	4,357	221

16. Operating leases

The Group has the following estimated total commitments under operating leases:

	Payable 2006 £000	*2005 £000*
Within one year	88	–
Two to five years	1,520	–
After five years	1,811	–
Total	3,419	–

Notes to the Group Financial Statements continued

for the year ended 30 June 2006

17. Cash flow statement

Reconciliation of operating loss to net cash outflow from operating activities

	2006 £000	2005 £000
Operating loss from continuing operations	(1,660)	(783)
Adjustments for:		
Depreciation of plant and equipment	2	244
Impairment loss on plant and equipment	–	455
Foreign exchange adjustment to plant and equipment	(25)	(12)
Gain on disposal of plant and equipment	–	25
Operating cash flows before movements in working capital	(1,683)	(121)
Decrease in assets held for resale	53	24
(Increase)/decrease in receivables	(99)	67
Increase/(decrease) in payables	330	(235)
Cash used by operations	(1,399)	(265)
Taxation paid – overseas tax	–	(28)
Net cash outflow from operating activities	(1,399)	(293)

Non-cash accounting transactions

In the year ended 30 June 2006 aircraft and related assets with a net book value of £560,000 have been reclassified as assets held for resale.

18. Related party transactions

Under the terms of an agreement dated 21 October 2002 between the Company and Massie & Co., a partnership in which Mr. Massie is a partner, all central management and administrative services were provided to the Company by Massie & Co. for a monthly fee of £30,000. With effect from 1 March 2006 this contract was varied, the scope of services been reduced and the fee payable changed to a monthly fee of £8,000 plus the external cost of accountancy services provided and 65 per cent. of Massie & Co.'s office, secretarial and administrative support costs. The contract is subject to six 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. Barber is a partner provided taxation compliance services to the Company for fees of £5,000.

Included in accruals and deferred income are amounts due to Mr. Massie and parties related to him totalling £360,000 (2005 – £360,000). It has been agreed that payment of these sums is conditional on the Group realising the amounts to be paid from the assets of the Group existing prior to the increase in paid up share capital in February 2006.

Included in other creditors is £76,000 (2005 – £214,000) advanced at a commercial rate of interest by De Havilland Investments Limited, a company in which Mr. Massie is deemed to have an interest and £123,000 due from Darwen Leasing Limited, a company associated with Mr. Massie. Payment of these sums is conditional on the realisation of the Company's aviation assets.

19. Financial instruments

The Group does not have any exposure to derivatives or foreign currency risk and credit risks are minimised through using only banks with a good credit rating.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of IAF Group plc will be held at 117 Jermyn Street, London SW1Y 6HH at 10.00 a.m. on Thursday, 21 December 2006 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 2006.
2. To approve the Report of the Board on Remuneration for the financial year ended 30 June 2006.
3. To re-appoint Chantrey Vellacott DFK LLP as auditors until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.
4. To re-appoint Mr. D. L. Massie as a Director of the Company.
5. To elect Mr. G. B. Ashley as a Director of the Company.
6. To elect Mr. M. de Jager as a Director of the Company.

Special Business

7. To pass the following Special Resolution "That the Directors be and they are hereby authorised and empowered pursuant to Section 95(1) of the Companies Act 1985 to allot equity securities (as defined by Section 94(2) of the said Act) up to a maximum of £1,000,000 in nominal amount pursuant to the general authority conferred upon the Directors as if Section 89(1) of the said Act did not apply to such allotment provided that such authority and power shall expire at the end of the period of fifteen months from the date of passing of this Resolution or on the date of the next Annual General Meeting following such Resolution whichever shall first occur and the Directors may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted after such expiry and the Directors may then allot equity securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

By Order of the Board
Edmund P. H. Barber
Company Secretary

Registered Office
7 Apple Tree Yard
Duke of York Street
London SW1Y 6LD

27 October 2006

Notes:

1. A member entitled to attend and vote at the above meeting may appoint a proxy or proxies, who need not be a member of the Company, to attend and vote in their place.
2. Forms of Proxy must be lodged at the offices of the Company's Registrars, Neville Registrars Limited, not later than 48 hours before the time of the meeting. A Form of Proxy is enclosed for the use of members.
3. Completion and return of a Form of Proxy will not prevent a member from attending the meeting hereby convened and voting in person should the member wish to do so.
4. In the case of a corporation, the Form of Proxy must be executed under its common seal or the hand of an officer or attorney duly authorised.
5. Members who hold Ordinary Shares in uncertificated form must have been entered on the Company's register of members by 10.00 a.m. on 19 December 2006 in order to be entitled to attend and vote at the meeting. Such members may only vote at the meeting in respect of Ordinary Shares held at such time.

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

Five Year Record

	2006 IFRS £m	2005 IFRS £m	2004 UK GAAP £m	2003 UK GAAP £m	2002* UK GAAP £m
Turnover	0.10	0.37	0.77	1.34	3.99
(Loss)/profit before tax	(1.45)	(0.83)	(1.75)	(1.47)	0.35
(Loss)/profit after tax	(1.45)	(0.83)	(0.95)	(1.24)	0.24
Tangible fixed assets	0.79	0.38	1.08	3.36	6.11
Ordinary shareholders' funds	4.36	0.22	1.10	2.05	3.29
Per ordinary share (in pence)					
Shareholders' funds	7.47	1.46	7.24	13.50	21.67
Basic (loss)/earnings	(4.80)	(5.51)	(6.25)	(8.17)	1.56
Dividends	–	–	–	–	–
Gearing (percentage)	–	–	–	–	33

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

* Restated

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