Company No: 2366568

# Annual Report 1996



*IAF Group plc*

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## Corporate Information

Executive Directors

David L. Massie - Executive Chairman
V. James Maguire - Finance Director

Non Executive Directors

Zadik Bino - Deputy Chairman
Peter G. Glossop
Christoper J. Spence

Audit Committee

Christopher J. Spence - Chairman
Zadik Bino
Peter G. Glossop
David L. Massie

Remuneration Committee

Zadik Bino - Chairman
Peter G. Glossop
Christopher J. Spence

Executive Committee

David L. Massie - Executive Chairman
Teresa L. Crossley - Operations Director
V. James Maguire - Finance Director
Richard W. Price - Marketing Director

Secretary and Registered Office

V. James Maguire
107 Cannon Street
London EC4N 5AD

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Registered in England No. 2366568

Registrar & Transfer Office

Independent Registrars Group Limited
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

Stockbrokers

Greig Middleton & Co. Limited
66 Wilson Street
London EC2A 2BL

Auditors

Robson Rhodes
Chartered Accountants
186 City Road
London EC1V 2NU

Bankers

National Westminster Bank Plc
21 Lombard Street
London EC3P 3AR

## *Financial Calendar*

Annual General Meeting

3 October 1996

Interim Results

The trading results for the first half of the year ending 30 June 1997 will be announced during February 1997.

Final Dividend

The directors propose a final dividend for the year ended 30 June 1996 of 0.45p per Ordinary Share which, if approved, will be payable on 4 November 1996 to shareholders registered on 24 September 1996.

Dear Shareholder,

Our financial results for the year ended 30 June 1996 can be summarised as follows:-

| | 1996 | 1995 |
|---|---|---|
| Turnover (continuing operations) | £7.9 million | £7.4 million |
| Profit before tax | £2.2 million | £3.0 million |
| Unadjusted earnings per share | 1.61p | 2.64p |
| Rights issue adjustment factor | x0.93 | x0.91 |
| Adjusted earnings per share | 1.49p | 2.40p |
| Dividends: | | |
| Interim | 0.25p | 0.20p |
| Final (recommended) | 0.45p | 0.40p |
| Total dividend | 0.70p | 0.60p |

Profits and earnings per share did not match last year's level due to reduced activity in certain fee earning markets and the time lag in investing the proceeds of the rights issue. Following completion of the rights issue in March 1996, IAF has continued its strategy of improving the quality and quantum of the Group's earning asset base which was outlined in the rights issue documentation. The aviation rental assets acquired during the year should provide a firm foundation for 1996/97.

The earnings per share figure has been adjusted to reflect the bonus element of the rights issue arising from the issue of new ordinary shares at a discount to the actual cum-rights price on the last day of quotation. Further details are provided in Note 11 to the financial statements.

Obviously, I would have preferred to report a further increase in profits but these figures hide a number of significant and positive changes. At the time of our Interim Announcement for the half year to 31 December 1995, I explained the changes that had been made to our management structure and a number of other changes such as:–

- the sale of our offices in Mayfair and the relocation to our offices in Cannon Street in the City;
- the streamlining of your Group into two business divisions - Asset Finance and Management Services; and
- the steps that were being taken to concentrate on our traditional strengths in Asset Financing

At the same time, your Deputy Chairman and a family trust of mine reaffirmed our confidence in the future of the Group by underwriting, through a company associated with them, a 2 for 3 rights issue at 10p. We were gratified that other shareholders shared that confidence with a 88.52% take-up. The proposed final dividend, if approved, is to be paid on the enlarged share capital and I hope the increase is an indication of our determination to resume earnings growth and our confidence as to the beneficial effect the actions taken in 1995/96 will have. We are classified in the "Other Financial" section of the Stock Exchange classification index and as that covers a number of different business activities, I describe in the relevant sections of this statement certain areas of our business in more detail.

Asset Finance

| | 1996 | 1995 |
|---|---|---|
| | £000 | £000 |
| - Turnover | 6,489 | 4,288 |
| - Operating profit | 2,817 | 3,819 |

During the year our income mix was different from our initial plans. Pure fee income was at a reduced level, reflecting competitive markets and the continuing subdued activity in tax-based cross-border financing.

Historically, our traditional business was almost exclusively fee-earning where we would charge clients a fee for arranging finance for them. This broking business was complemented by a more sophisticated "packaging" role where we would attempt to initiate transactions, often tax-based which capitalised on the differences in accounting and tax treatments across national borders. In response to volatility in these markets, and with a view to increasing the proportion of reoccurring income as additional capital and financial resources have become available to us, we expanded our role as principal in asset finance transactions.

Our most active area during the year was aviation financing where I have previously reported the purchase of six Boeing 727-200 (Advanced) aircraft. One of these aircraft was subsequently resold and that is reflected in the growth in turnover. Of the other five aircraft, four are now on lease and the last is expected to go on lease when it comes out of a maintenance shop having undergone a major overhaul.

We enhanced our asset base in relation to a number of these aircraft by modifying them to freighters and, in certain cases, ensuring the engines were fitted with a modification ("hushkitting") so that they meet the latest (category 3) international noise standards.

After the rights issue and before the year end we contracted to purchase four further Boeing 727-200 (Advanced) aircraft. These latter aircraft are much newer and, except for certain engine maintenance, needed little further attention before going on lease.

A summary of our current aircraft fleet is as follows:-

| Manufacturer | Type | Aircraft Serial No | Regn. Mark | Noise Category | Configuration | Engine Type (all Pratt & Whitney) | Year of Manufacture |
|---|---|---|---|---|---|---|---|
| Boeing | 727-200 HF | 21269 | EI-EWW | 3 | Hushkitted Freighter | JT8D-7 | 1976 |
| Boeing | 727-200 HF | 21245 | EI-PAK | 3 | Hushkitted Freighter | JT8D-7 | 1976 |
| Boeing | 727-200 (A) | 22542 | N370PA | 2 | Passenger | JT8D-17 | 1982 |
| Boeing | 727-200 (A) | 22539 | N367PA | 2 | Passenger | JT8D-17 | 1982 |
| Boeing | 727-200 (A) | 22538 | N366PA | 2 | Passenger | JT8D-17 | 1981 |
| Boeing | 727-200 (A) | 22535 | N363PA | 2 | Passenger | JT8D-17 | 1981 |
| Boeing | 727-200 (A) | 20840 | N79771 | 2 | Passenger | JT8D-9 | 1974 |
| Boeing | 727-200 AF | 20637 | N68782 | 2 | Freighter | JT8D-15 | 1973 |
| Boeing | 727-200 (A) | 21044 | N13759 | 2 | Passenger | JT8D-9 | 1975 |
| McDonnell Douglas | DC9-31 | 47330 | HK-4084X | 2 | Passenger | JT8D-9 | 1968 |

Lessees pay lease rentals monthly in advance and in addition pay to the company a reserve against future maintenance costs. The aircraft are generally considered by aviation experts to have a significant economic life remaining and in entering into these transactions, we anticipate generating both an immediate return from the contracted rentals and a future capital gain.

The company has a policy of sub-contracting specialist technical services. On these transactions we have worked with an advisor who receives a modest fee but will share in the profitability of the aircraft after our full cash investment has been recovered.

We entered into a number of transactions several years ago with UK local authorities for various items of equipment (primarily road transport orientated) where the company had acquired the assets and rented them to the local authority in question for an agreed term. At the end of that rental contract, the company was entitled to re-rent the assets or sell them. During the year, a number of these transactions matured which yielded a number of small profits as the leases were either renewed or the equipment sold. These did not cover the expenses of a somewhat larger portfolio of trucks which the company had previously agreed to acquire from a major bank on the maturity of a rental transaction to a major supermarket chain. The company has now reduced the truck fleet to approximately two thirds of its initial acquisition size and is centralising the storage and marketing of all remaining trucks on to one site. New marketing arrangements have been entered into. At the financial year end the written down value of the remaining truck fleet was £0.95m (original cost £3.4m) and it is expected that this fleet will be dealt with in all material respects during the current year.

We are currently working on a number of interesting energy-related projects. These are not "exploration" type but rather of a power generation nature where we see many similarities to our traditional asset finance business. Typically, after an initial development period, the projects enjoy a substantial period with predictable cash flows.

We see your Company as an investor in both the ordinary share capital and perhaps in a mezzanine level of debt of the organisations established to undertake such projects. On certain projects, we may act as advisor only. These projects have a long gestation period but, if the arrangements prove successful, further announcements will be made in due course.

Management Services

| | 1996 | 1995 |
|---|---|---|
| | £000 | £000 |
| - Turnover (continuing operations) | 1,457 | 3,089 |
| - Operating profit | 972 | 819 |

Our other division is very much smaller than Asset Finance. As indicated in the rights issue documentation, market conditions make it difficult to grow the instalment credit administration business at the current time. Our remittance processing business, IAF Lockbox Services proved frustrating. New clients were added (and a few existing ones lost where we refused to engage in a price war) but the pace of expansion has proved slower than expected. The plan and target is for the company to achieve breakeven in the current year. We have just gained our first customer to utilise our new remittance-processing software and will concentrate in seeking greater value-added remittance processing services rather than pure cheque processing.

Other investments

From time to time, your Company invests in companies or projects where it sees a way to enhance value. The investments are held from a period of a few months to several years. During the current year, we sold our 20% investment in the engineering company, Judgephase Company Limited, acquired at the time when a U.S. client of ours acquired a majority holding from the venture capital funders who then owned it. The total return to the Group, (calculated by reference to the annual share of associated company profits and gain on sale), amounted to a compound 50% per annum over the two years during which the £250,000 investment was held. A final £150,401 profit was booked on sale.

We continue to progress with our Litton Mill project through Dukemarket Limited for the development of a care and rehabilitation centre for the disabled in the Peak National Park. Certain logistical problems were overcome during the year and we will seek to introduce fresh investors this year.

Share Capital

The history of our share capital over the last few years has been complicated partly as a result of the decision to bring IAF to the Stock Market by way of a reversal and also due to the technical requirements of the rights issue when compared with the nominal share capital. I do not consider it is in anyone's best interest for the company to continue to be classified as a "penny stock" and we propose, subject to shareholders' approval, to consolidate the existing 151,569,445 ordinary shares of 10p into 15,156,945 ordinary shares of £1. Future dividends per share are expected to increase proportionally.

Staff

Our staff are, of course, crucial to our success and I thank them for their effort and commitment during the last twelve months.

During the year, we established an Employee Share Ownership Plan to facilitate incentive schemes for staff and acquired an initial 300,000 shares through the market for a total consideration of £32,386. These shares can be used to fulfil share option grants. We expect the Trustees of the ESOP may decide to acquire further shares during the year. Any such costs are expensed. The ESOP is open to all full time staff save that it excludes myself in view of my existing shareholding.

Future Development

We intend to continue to try and grow your Company by concentration on our core asset finance business. We do not seek, to be a pure "money lender" seeking a return based solely on the differential between loan rates and funding costs. We seek transactions where any such return will be complemented by some form of equity-orientated participation and intend to follow a progressive dividend policy.

The Annual General Meeting is to be held on 3 October 1996 and an update on current trading will be given at that meeting.

Yours Sincerely

David L. Massie
Executive Chairman

London, 5 September 1996

The directors submit their report together with the audited financial statements for the year ended 30 June 1996.

Financial activities
The Group's activities encompass a wide range of financial services including Asset Finance, and Management Services.

Review of business
A review of the activities of the Group and its future prospects is commented on in the Chairman's Statement on pages 3 to 5.

Results and dividends
The results of the Group for the year ended 30 June 1996 are set out in detail on page 10. The directors recommend a final ordinary dividend of 0.45 pence per share (1995 - 0.4 pence per share), amounting to £682,062 (1995 - £364,000) making a total of 0.7 pence (1995 - 0.6 pence) for the year.

Directors and their interests
The following held office as directors of the Company during the year:

| | |
|---|---|
| D.L. Massie | (Chairman) |
| Z. Bino | |
| P.G. Glossop | |
| V.J. Maguire | |
| C.J. Spence | |
| B.R.J. Whipp | (Resigned 2 October 1995) |

Mr Z. Bino is Chairman of Paz Oil Company Limited, the largest oil company in Israel. He was previously Chairman and Chief Executive Officer of First International Bank of Israel Limited and later Chief Executive Office of Bank Leumi L'Israel B. M. He is currently a member of the Advisers Committee of the Bank of Israel, the equivalent of the Israeli central bank's board of directors.

Mr C. J. Spence was a member of the London Stock Exchange until 1978 when he joined English Trust, the Company's financial adviser, of which he is now the Executive Chairman. He is a director of a number of quoted and unquoted companies.

Mr P. G. Glossop has been involved in fund management for over 25 years and recently retired as a director of GT Management plc. He is a director of a number of quoted and unquoted companies including Thompson Clive Investments plc.

In accordance with the Articles of Association, Z. Bino retires by rotation and being eligible offers himself for re-election at the forthcoming Annual General Meeting.

Details of directors' interests are given in Note 7 to the financial statements.

There have been no changes to the directors' shareholdings, warrant holdings or share options in the Company between 30 June 1996 and 15 August 1996.

Substantial Interests
The Company has been advised of the following interests amounting to three per cent or more of the issued share capital at 15 August 1996.

| | No. of ordinary shares | % Holding |
|---|---|---|
| Sandwood Limited* | 78,981,720 | 52.1% |
| D.L. Massie and family trusts* | 11,458,514 | 7.6% |
| Discretionary clients of Edinburgh Fund Managers plc | 10,555,427 | 7.0% |
| National Coal Board Pensions Fund Nominees Limited | 5,868,864 | 3.9% |
| E. Carmel | 5,188,473 | 3.4% |

* Z. Bino and family trusts of D.L. Massie each own 49% of Sandwood Limited.

Share Capital
The company completed a two for three rights issue at a price of 10p per share which raised approximately £6m before expenses. The rights issue was fully subscribed resulting in an increase in the number of shares in issue from 90,941,667 to 151,569,445.

At the same time permission was granted from the Court to reduce the nominal value of the ordinary share capital of the company from 20p per share to 10p per share.

Arising from the reduction in the nominal value of the shares an amount of £9,094,167 has been credited to other reserves.

As a result of the rights issue the number of ordinary shares for which the warrant holders are entitled to subscribe were increased on a basis of one additional warrant for every five held. Accordingly the number of warrants in issue has increased from 1,399,986 to 1,679,983.

Details of the changes in share capital and reserves are provided in Notes 20 and 21 respectively in the Financial Statements.

Special Business at the Annual General Meeting
In addition to the ordinary business the following resolutions will be proposed as special business at the Annual General Meeting. The full text of these resolutions is set out in the notice of meeting on page 32.

Resolution 5: Consolidation of Shares
It is proposed by resolution 5 to consolidate every ten existing ordinary shares of 10p each into one ordinary share of £1. Fractions of new ordinary shares arising on consolidation will be aggregated and sold in the market and the net proceeds of sale will be retained by the

Company. Following the consolidation, the Company's authorised share capital will be 18,000,000 ordinary shares of £1 each, of which 15,156,945 ordinary shares will be in issue. The voting and other rights attached to the new ordinary shares of £1 each will be identical to those currently attached to the ordinary shares of 10p each. It is expected that dealings in the Company's shares in their consolidated form will commence on 4 October 1996. Subject to the passing of resolution 5 new certificates will be posted on 11 October 1996 to holders of new ordinary shares on the register on 3 October 1996 at the risk of the persons entitled thereto. Dealings between 4 October 1996 and 11 October 1996 will be certified against the Register.

The numbers of ordinary shares referred to in the description of resolution 6 below assumes that resolution 5 is passed.

Resolution 6: Disapplication of Pre-emption Rights
Resolution 6 in the notice of meeting is a special resolution for the renewal of the directors' authority to allot relevant securities without first offering them to shareholders pro rata to their holdings for the purposes of offers made by way of rights, the exercise of warrant subscription rights and the issue for cash of up to an aggregate nominal amount of £758,000 (758,000 ordinary shares of £1 each, representing 5 per cent of the current issued share capital of the Company). The authority contained in the resolution expires at the earlier of next year's Annual General Meeting and 31 December 1997.

Charitable and Political Contributions
No political donations were made by the company during the year (1995 - £nil) charitable donations totalled £1,000 (1995 - £320).

Employee Involvement
The directors recognise the importance of good employee relationships. Managers are encouraged to adopt employee consultation in appropriate circumstances.

The directors also attach importance to employee share ownership and the Company currently operates a Share Option Scheme to encourage employees to own shares in the Company.

The Company has established an Employee Share Ownership Plan ("ESOP") whereby certain staff will be allowed to participate in the ownership of the Company's shares. The ESOP has acquired 300,000 ordinary 10p shares for a total consideration of £32,386. The shares are available for use in connection with the Company's Share Option Scheme.

Corporate Governance
The Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance included 19 recommendations. The directors consider that the Company has complied throughout the period with the recommendations of the Code of Best Practice.

The report of the Company's auditors concerning compliance with the Cadbury code appears on page 31.

Statements by the directors of their responsibilities in relation to the accounts, the adoption of the going concern basis for the preparation of the accounts and the Group's system of internal financial control appear on page 9.

Creditor Payment Policy
The Group does not follow a formal code of payment but endeavours to agree payment terms with suppliers 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.

CREST
CREST is a new electronic settlement system for the transfer of shares in the UK which will progressively replace the present paper-based system between July 1996 and Easter 1997. The board gives notice to shareholders and warrant holders, in accordance with the Uncertified Securities Regulations 1995, that the company intends to pass a resolution of its directors that title to the ordinary shares in the capital of the company, in issue or to be issued, together with title in the warrants of the company may be transferred by means of a relevant system.

This directors' resolution will enable the Company's ordinary shares and warrants to join CREST in due course subject to the approval of CRESTco Limited, the operator of the CREST system. This approval is expected to be given in January 1997. The resolution will also override any provisions of the Company's articles of association which are inconsistent with the operation of CREST in relation to the Company's ordinary shares. CREST will not oblige shareholders to make any change to their method of holding or dealing in shares if they do not wish to do so.

Auditors
Robson Rhodes have expressed their willingness to continue in office. A resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

By order of the board

**V.J. Maguire**
Secretary
5 September 1996

General

The Company's remuneration committee, first established in April 1994, comprises Z. Bino, P.G. Glossop and C.J. Spence, all of whom are non-executive directors of the Company, and who have no personal or financial interest in the matters to be decided.

The Executive Chairman and Finance Director may attend meetings, by invitation, where necessary, and the committee has access to external advisers when required.

The remuneration committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors and senior executives of the right calibre.

The principles applied by the committee in setting the remuneration policy during the year are consistent in all respects with the best practice provisions of the Greenbury code now annexed to the London Stock Exchange listing rules.

Components of Remuneration

***(a) Basic Salaries and Benefits***
Salaries are determined by reference to the UK market place taking account of the international spread of the businesses and reflect responsibility and experience. Salaries are reviewed annually as at 1 July. Benefits principally comprise a car and private health care.

***(b) Bonus Scheme***
The Group may award performance related discretionary bonuses to incentivise executive directors and senior executives to achieve pre-determined financial targets. Any bonus for the executive directors is based on earnings per share performance together with pre-determined targets set by this committee.

***(c) Pensions***
The Company makes contributions to a defined contribution scheme on behalf of the Executive Chairman. Pension contributions made in respect of 1996 are shown in Note 7 to the financial statements.

There are no pension arrangements for other directors.

***(d) Share Options***
The committee believes that share ownership by executive directors and senior executives strengthens the link between their personal interests and those of the shareholders. Details of options granted to executive directors and senior executives can be found in Note 7 to the financial statements.

Contracts of Service
The Company's policy in respect of contracts of service for executive directors is to provide notice or contract periods not exceeding one year. The committee believes that this period of notice is in line with the marketplace, and is appropriate for a company of the size and structure of IAF Group plc. Both executive directors are employed under contracts which conform to this policy.

Non-Executive Directors
Non-executive directors have contracts but each appointment is subject to review every three years.

The fees of the non-executive directors are set by the Board without the presence of the non-executive directors concerned.

The non-executive directors do not receive any bonuses related to the Company's performance nor do they participate in any share option schemes.

Going Concern

The directors have reviewed the Group's liquid resources and borrowing facilities together with the cash flow forecasts contained in the Group budget for the current year. The directors believe that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Internal Financial Control

The Board of Directors has overall responsibility for establishing and maintaining the Groups' systems of financial control and for monitoring their effectiveness. These systems are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Audit Committee which, comprises all of the non-executive directors, has clear terms of reference laid down by the Board, and meets twice a year. It provides a forum for reporting by the external auditors.

The directors have reviewed the systems of financial control, and the audit committee has reviewed the effectiveness of these systems as they operated during the year.

The main control procedures employed by the Board are as follows:

*a)* Annual budgets are prepared for each operating division with monthly management reporting and reviews for each business, which focus on expectations and actual performance. These reviews are summarised for the Board's consideration;

*b)* Policies and procedures for such matters as delegation of authority, capital expenditure requirements and treasury matters are distributed to executive management and regularly updated. Responsibility for implementing a system of internal financial control is delegated to the executive management and throughout the Group the directors ensure the placement of experienced and professional staff of the necessary calibre to discharge their delegated responsibilities;

*c)* Subsidiary company directors are required to review and report on the business risks most important to their company and to consider the financial implications and the effectiveness of the control processes in place to mitigate against these risks.

The above key procedures, enable the directors to confirm that they have reviewed the effectiveness of the systems of internal financial control of the Group.

Directors' responsibilities in respect of the financial statements

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 for that period. In preparing those financial statements, the directors are required to:

*a)* Select suitable accounting policies and then apply them consistently;

*b)* Make judgements and estimates that are reasonable and prudent;

*c)* State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

*d)* Prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors confirm that these financial statements comply with these requirements.

## Consolidated Profit and Loss Account
*for the year ended 30 June 1996*

| | Note | 1996 £000 | 1995 £000 |
|---|---|---|---|
| **Turnover** | | | |
| - Continuing operations | | 7,946 | 7,377 |
| - Discontinued operations | | - | 1,345 |
| | 2 | 7,946 | 8,722 |
| **Cost of sales** | | (2,975) | - |
| **Gross Profit** | | 4,971 | 8,722 |
| **Administrative expenses** | | | |
| - Continuing operations | | (2,685) | (4,020) |
| - Discontinued operations | | - | (1,672) |
| | | (2,685) | (5,692) |
| **Operating profit** | | | |
| - Continuing operations | | 2,286 | 3,357 |
| - Discontinued operations | | - | (327) |
| | 2 | 2,286 | 3,030 |
| **Exceptional items** | 3 | - | (291) |
| **Interest receivable** | | 449 | 560 |
| **Interest payable** | 4 | (532) | (297) |
| **Profit on ordinary activities before taxation** | 5 | 2,203 | 3,002 |
| Taxation | 8 | (441) | (602) |
| **Profit after taxation** | 9 | 1,762 | 2,400 |
| Dividends | 10 | (909) | (546) |
| **Retained profit** | 21 | 853 | 1,854 |
| Basic earnings per share | 11 | 1.49p | 2.40p |

There were no recognised gains or losses other than those reported above.

# *Consolidated Balance Sheet*
## *as at 30 June 1996*

| | Note | 1996 £000 | 1995 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible Assets | 12 | 27,898 | 9,753 |
| Investments | 13 | 32 | 338 |
| | | 27,930 | 10,091 |
| **Current assets** | | | |
| Debtors | | | |
| - Amounts receivable within one year | 14 | 6,302 | 5,488 |
| - Amounts receivable after more than one year | 14 | 177 | 381 |
| Investments | 15 | 385 | 335 |
| Cash at bank and in hand | | 2,305 | 5,249 |
| | | 9,169 | 11,453 |
| **Creditors** | | | |
| Amounts falling due within one year | 16 | (9,647) | (4,516) |
| **Net current (liabilities)/assets** | | (478) | 6,937 |
| **Total assets less current liabilities** | | 27,452 | 17,028 |
| **Creditors** | | | |
| Amounts falling due after more than one year: | | | |
| 5% Convertible loan note - 1999 | 17 | - | (2,800) |
| Other | 17 | (7,479) | (1,355) |
| **Provision for liabilities and charges** | 19 | (297) | - |
| | | 19,676 | 12,873 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | 15,157 | 18,188 |
| Share premium account | 21 | 4,658 | 4,771 |
| Other reserves | 21 | (6,182) | (15,276) |
| Profit and loss account | 21 | 6,043 | 5,190 |
| **Equity Shareholders' funds** | | 19,676 | 12,873 |

The financial statements were approved by the Board of Directors on 5 September 1996.

Signed on behalf of the Board

**D.L. Massie** **V.J. Maguire**

# *Company Balance Sheet*
## *as at 30 June 1996*

| | Note | 1996 £000 | 1995 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible Assets | 12 | - | 2,730 |
| Investments | 13 | 16,917 | 16,885 |
| | | 16,917 | 19,615 |
| **Current assets** | | | |
| Debtors | 14 | 21,277 | 9,597 |
| Investments | 15 | 83 | 83 |
| Cash at bank and in hand | | 1,683 | 4,172 |
| | | 23,043 | 13,852 |
| **Creditors** | | | |
| Amounts falling due within one year | 16 | (3,590) | (685) |
| **Net current assets** | | 19,453 | 13,167 |
| **Total assets less current liabilities** | | 36,370 | 32,782 |
| **Creditors** | | | |
| Amount falling due after more than one year: | | | |
| 5% Convertible loan note - 1999 | 18 | - | (2,800) |
| | | 36,370 | 29,982 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | 15,157 | 18,188 |
| Share premium account | 21 | 4,658 | 4,771 |
| Other reserves | 21 | 9,094 | - |
| Profit and loss account | 21 | 7,461 | 7,023 |
| **Equity Shareholders' funds** | | 36,370 | 29,982 |

The financial statements were approved by the Board of Directors on 5 September 1996.

Signed on behalf of the Board

D. L. Massie

**D.L. Massie** **V.J. Maguire**

## Consolidated Cash Flow Statement
*for the year ended 30 June 1996*

| | Note | 1996 £000 | 1995 £000 |
|---|---|---|---|
| **Net cash inflow from operating activites** | 1 | 6,011 | 2,801 |
| **Returns on investment and servicing of finance** | | | |
| Interest received | | 221 | 1,082 |
| Interest paid | | (516) | (297) |
| Dividends paid | | (591) | (273) |
| Dividends received | | 28 | 12 |
| | | (858) | 524 |
| **Taxation** | | | |
| UK corporation tax paid | | (461) | (100) |
| Advance corporation tax paid | | (136) | (228) |
| | | (597) | (328) |
| **Investing Activities** | | | |
| Purchase of fixed assets | | (24,079) | (1,328) |
| Purchase of unquoted investments | | - | (84) |
| Purchase of quoted investments | | (32) | (336) |
| Sale of investment in associated company | | 563 | - |
| Sale of quoted investments | | 2 | 923 |
| Advances | | (1,799) | (511) |
| Sale of fixed assets | | 3,941 | 238 |
| Repayments of advances | | 753 | 1,005 |
| | | (20,651) | (93) |
| **Net cash (outflow)/inflow before financing** | | (16,095) | 2,904 |
| **Financing** | | | |
| Issue of Share Capital | | 6,063 | - |
| Bank Loans received | | 11,954 | - |
| Repayment of bank loans | | (661) | - |
| Costs of share issue | | (113) | - |
| Repayment of hire purchase and finance lease obligations | | (1,292) | (862) |
| Repayment of 5% Convertible Loan Note (1999) | | (2,800) | - |
| | | 13,151 | (862) |
| **(Decrease)/increase in cash and cash equivalents** | 4 | (2,944) | 2,042 |

# Notes to the Cash Flow Statement
## for the year ended 30 June 1996

1. Cash Inflow From Operating Activities

| | 1996 £000 | 1995 £000 |
|---|---|---|
| **Operating profit** | 2,286 | 3,030 |
| Depreciation | 2,011 | 1,378 |
| Profit on disposal of fixed assets | (18) | (31) |
| Net gain on investments | (52) | (127) |
| Profit on disposal of associated undertakings | (150) | - |
| Profit before tax of associated undertakings | (114) | (126) |
| Decrease/(increase) in trade debtors | 748 | (647) |
| Increase/(decrease) in creditors | 1,300 | (676) |
| **Net cash inflow from operating activities** | 6,011 | 2,801 |

2. Analysis of Changes in Financing

| | Share capital and share premium £000 | Other reserves £000 | Loans and lease and hire purchase obligations £000 |
|---|---|---|---|
| At 1 July 1995 | 22,959 | (15,276) | 5,343 |
| Cash inflows from loans | - | - | 11,954 |
| Arising from issue of shares | 5,950 | - | - |
| Arising from capital reconstruction | (9,094) | 9,094 | - |
| Repayment of hire purchase and finance lease contracts | - | - | (1,292) |
| Repayment of loans | - | - | (661) |
| Repayment of 5% Convertible Loan Note (1999) | - | - | (2,800) |
| At 30 June 1996 | 19,815 | (6,182) | 12,544 |

3. Analysis of the Balances of Cash and Cash Equivalents As Shown in the Balance Sheet

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Cash at bank and in hand | 2,305 | 5,249 |

4. Analysis of Changes in Cash and Cash Equivalents

| | 1996 £000 | 1995 £000 |
|---|---|---|
| At 1 July 1995 | 5,249 | 3,207 |
| Net cash (outflow)/inflow during the year | (2,944) | 2,042 |
| At 30 June 1996 | 2,305 | 5,249 |

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 investments and in accordance with applicable UK Accounting Standards. The principal accounting policies which 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 to 30 June 1996.

**c) Foreign currency translation**
Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the time 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. These translation differences are dealt with in the profit and loss account.

**d) Turnover**
Turnover represents fees, commissions and trading income receivable and income derived from hire purchase, lease and other asset finance agreements. Where finance or fee earning arrangements are prematurely terminated, any gain or loss that arises therefrom is included as operating profit and attributed to turnover.

**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 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 company's net investment.

Obligations under such agreements are included in creditors, net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant rate of charge on the net obligation outstanding in each period.

**f) Taxation**
The charge for taxation is based on the profit 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.

Provision for deferred taxation is made under the liability method only to the extent that it is probable that the liability will become payable in the foreseeable future.

Advance corporation tax on dividends paid and provided for in the period is not written off if UK corporation tax liabilities for the period up to the next balance sheet date are expected to be sufficient to absorb this tax.

**g) Tangible fixed assets and depreciation**
For tangible fixed assets, depreciation is calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of estimated useful economic lives, which are considered to be:

| | |
|---|---|
| Freehold land and buildings | - 50 years |
| Lease premiums | - over the lease term |
| Equipment, fixtures and fittings | - 5 years |
| Assets held for rental: | |
| Aircraft | - 10 - 16 years |
| Other equipment | - 3 - 5 years |

Properties in the course of development are included at the lower of cost or valuation.

**h) Associated undertakings**
Companies in which the Group has a long term interest comprising not less than 20% of the voting capital and over which it is in a position to exert significant but not dominant influence are treated as associated undertakings. The consolidated profit and loss account includes the appropriate share of the profits of those undertakings based on financial statements to 30th June 1996.

**i) 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. Other investments (including investments in subsidiary companies) are included at cost.

**j) Pension schemes**
The company contributes to a defined contribution self-administered scheme for certain senior employees. Pension fund payments are charged to the profit and loss account as they are incurred.

**k) 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.

**l) Aircraft repair provision**
Provision is made for repair and maintenance on an hourly usage basis in respect of major components of certain fixed wing aircraft. Other component overhaul costs are charged to operating costs as incurred.

## 2. TURNOVER AND SEGMENTAL ANALYSIS

| | Asset Finance | | Management Services | | Total | |
|---|---|---|---|---|---|---|
| | 1996 £000 | 1995 £000 | 1996 £000 | 1995 £000 | 1996 £000 | 1995 £000 |
| **Turnover** | | | | | | |
| - Continuing operations | 6,489 | 4,288 | 1,343 | 2,963 | 7,832 | 7,251 |
| - Profit before tax of associated undertakings | - | - | 114 | 126 | 114 | 126 |
| - Discontinued operations | - | - | - | 1,345 | - | 1,345 |
| | 6,489 | 4,288 | 1,457 | 4,434 | 7,946 | 8,722 |
| **Operating profit** | | | | | | |
| - Continuing operations | 2,817 | 3,819 | 972 | 819 | 3,789 | 4,638 |
| - Discontinued operations | - | - | - | (327) | - | (327) |
| | 2,817 | 3,819 | 972 | 492 | 3,789 | 4,311 |
| **Non attributable overheads** | | | | | (1,503) | (1,281) |
| **Operating profit** | | | | | 2,286 | 3,030 |

## 3. EXCEPTIONAL ITEMS

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Recognised below operating profit: | | |
| Loss arising from investments taken over at the time of merger | - | (111) |
| Loss on sale of operations | - | (180) |
| | - | (291) |

The tax effect in the profit and loss account relating to the exceptional items recognised below operating profit is a credit of £Nil (1995 - £37,000).

4. INTEREST PAYABLE

| | 1996 | 1995 |
|---|---|---|
| | £000 | £000 |
| Bank loans and overdrafts repayable within one year | 121 | - |
| Bank loans repayable between 1 and 5 years | 215 | - |
| Finance lease charges | - | 5 |
| Hire purchase contracts | 152 | 152 |
| 5% Convertible loan note - 1999 (redeemed 23 October 1995) | 44 | 140 |
| | 532 | 297 |

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities is arrived at after charging/(crediting):

| | 1996 | 1995 |
|---|---|---|
| Depreciation of owned fixed assets | 1,019 | 345 |
| Depreciation of leased fixed assets | 992 | 1,033 |
| Auditor's remuneration - audit | 33 | 32 |
| - other | 52 | 43 |
| Directors' remuneration | 426 | 373 |
| Profit on disposal of fixed assets | (18) | (31) |
| Operating lease rentals charge - land and buildings | 268 | 513 |
| Operating lease rentals receivable | (2,901) | (2,400) |
| Income from investments - listed | (52) | (24) |

Other remuneration to the auditors consisted of fees for taxation advice of £43,000 and advisory work of £9,000.

6. EMPLOYEES

The average number employed by the Group, which includes executive directors, was 24 (1995 - 54). The average for 1995 is distorted by the timing of the closure of PHM Marketing Services Limited and the actual number of employees at that year end was 26 (1996 - 21). The aggregate remuneration of employees, including directors, comprised:

| | 1996 | 1995 |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 898 | 1,522 |
| Social security costs | 83 | 146 |
| Other pension costs | 41 | 38 |
| | 1,022 | 1,706 |

Executive share option scheme:
Under the terms of the executive share option scheme, which is designed to encourage employees and executives to match their long term career aspirations with the interests of the Group which was set up at the time of the reverse in April 1994, the Board has granted directors, executives and certain employees the option to purchase ordinary shares in the company. The option price is determined by reference to market price at date of grant, as adjusted for the rights issue announced in January 1996.

Outstanding options by date of grant are:

| Date of grant | Normal date of exercise | Option Price | Number of Shares |
|---|---|---|---|
| 11 April 1994 | April 1997 to April 2004 | 29p | 91,530 |
| 12 March 1996 | March 1999 to March 2006 | 11p | 600,000 |

The mid-market price of shares at 30 June 1996 was 12.0p (1995 13.5p). The highest mid-market price during the year was 19.0p and the lowest mid-market price was 10.0p.

During the year options over 552,000 shares either lapsed or were cancelled.

Employee Share Ownership Plan:
On 31 January 1996 the Company established an Employee Share Ownership Plan ("ESOP"). The Trust 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 executive share option scheme. At 30 June 1996 the ESOP had purchased 300,000 shares (market value £36,000) and had made contributions totalling £35,500 to the Trust. Under the terms of the ESOP trust deed, the ESOP trustee is indemnified in respect of any costs, expenses, losses or other shortfalls in assets arising out of the trust business.

## 7. DIRECTORS' EMOLUMENTS AND INTERESTS

(i) Directors' emoluments
The total emoluments of the directors, including pension contributions, were as follows:

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Executive directors | | |
| Salaries | 248 | 290 |
| Bonus | 4 | - |
| Benefits | 14 | 23 |
| Pension contributions | 41 | 38 |
| Compensation for loss of office | 95 | - |
| | 402 | 351 |
| Non executive directors fees. | 24 | 22 |
| | 426 | 373 |

The compensation for loss of office which was paid by the Company includes the cash benefit of a director retaining a company car as part of the compensation arrangement.

Emoluments of the directors for the year to 30 June 1996 (excluding pension contributions) were:

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Chairman and highest paid director | 180 | 145 |

7. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

| | 1996 Number | 1995 Number |
|---|---|---|
| Other directors: | | |
| Nil to £5,000 | 1 | 1 |
| £ 10,001 - £ 15,000 | 2 | 2 |
| £ 60,001 - £ 65,000 | - | 1 |
| £ 65,001 - £ 70,000 | 1 | - |
| £105,000 - £110,000 | - | 1 |
| £110,000 - £115,000 | 1 | 1 |

Detailed emoluments of directors of the Company are shown in the table below:

| | Salary/fee £000 | Bonus £000 | Taxable Benefits £000 | On Cessation £000 | Pension Contribution £000 | Total £000 | 1995 £000 |
|---|---|---|---|---|---|---|---|
| Executive Directors salaries: | | | | | | | |
| D.L. Massie | 177 | - | 3 | - | 35 | 215 | 173 |
| B.R.J. Whipp | 17 | - | 2 | 95 | 6 | 120 | 117 |
| V.J. Maguire | 54 | 4 | 9 | - | - | 67 | 61 |
| | 248 | 4 | 14 | 95 | 41 | 402 | 351 |
| Non-executive Directors' fees: | | | | | | | |
| Z.Bino | - | - | - | - | - | - | - |
| C.J. Spence | 12 | - | - | - | - | 12 | 11 |
| P.G. Glossop | 12 | - | - | - | - | 12 | 11 |
| | 24 | - | - | - | - | 24 | 22 |
| Total Directors' remuneration | | | | | | | |
| 1996 | 272 | 4 | 14 | 95 | 41 | 426 | |
| 1995 | 312 | - | 23 | - | 38 | 373 | |

B.R.J. Whipp, who resigned from the Board on 2 October 1995, ceased to be an employee of the Group and was paid £88,000, being slightly less then the equivalent of one year's salary to which he was entitled under his contract of service, and retained his company car.

Mr Massie is a member of the IAF Group Senior Executive Pension Scheme to which the Group makes a fixed contribution as a percentage of salary.

Bonuses for executive directors are determined according to performance criteria as agreed by the remuneration committee.

D.L. Massie and V.J. Maguire have one year rolling service contracts. No other director has a service contract.

7. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

(ii) Directors' interests

The beneficial interests of the directors in the ordinary shares of the company, the warrants of the company and in options under the share option scheme are set out below:

(a) Ordinary Shares

| | 1996 | 1995 |
|---|---|---|
| Executive Directors: | | |
| D.L. Massie | 91,440,234 | 52,332,039 |
| V.J. Maguire | 134,375 | 80,625 |
| | | |
| Non-Executive Directors: | | |
| Z. Bino | 79,981,720 | 40,873,525 |
| P.G. Glossop | 158,333 | 50,000 |
| C.J. Spence | 87,000 | 87,000 |

All of the shares are beneficially held other than those held by Mr C.J. Spence.

The shareholding of Mr P.G. Glossop includes 75,000 shares held by a family trust.

The shareholding of Mr D.L. Massie includes 514,753 shares held by a family trust in which he has a beneficial interest.

Sandwood Limited, which is owned 49% by Z. Bino and 49% by family trusts of D.L. Massie, held 79,981,720 shares at 30 June 1996. The declarable interests in the issued share capital of the Company of Z. Bino and D.L. Massie both include the 79,981,720 shares attributable to Sandwood Limited.

(b) Warrants

| | 1996 | 1995 |
|---|---|---|
| Executive Directors: | | |
| D.L. Massie | 600,000 | 100,000 |
| V.J. Maguire | - | - |
| | | |
| Non- Executive Directors: | | |
| Z. Bino | - | - |
| P.G. Glossop | 12,000 | 10,000 |
| C.J. Spence | 20,880 | 17,400 |

All of the above warrants are beneficially held other than those of Mr C.J. Spence.

7. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

(c) Share Options

Details of grants of options made during the year, options waived or cancelled and options held under the company's share option scheme are as follows:

| | At 1 July 1995 | Granted | Cancelled/ waived | At 30 June 1996 | Exercise price | Date from | Exerciseable to |
|---|---|---|---|---|---|---|---|
| Directors: | | | | | | | |
| V.J. Maguire | 150,000 | - | (150,000) | - | 29p | April 1997 | April 2004 |
| | - | 250,000 | - | 250,000 | 11p | March 1999 | March 2006 |
| | 150,000 | 250,000 | (150,000) | 250,000 | | | |
| B.R.J. Whipp | 211,000 | - | (211,000) | - | | | |
| Senior Executives: | | | | | | | |
| R.W. Price | 100,000 | - | (100,000) | - | 29p | April 1997 | April 2004 |
| | - | 250,000 | - | 250,000 | 11p | March 1999 | March 2006 |
| | 100,000 | 250,000 | (100,000 | 250,000 | | | |
| T.L. Crossley | 15,000 | - | (15,000) | - | 29p | April 1997 | April 2004 |
| | - | 50,000 | - | 50,000 | 11p | March 1999 | March 2006 |
| | 15,000 | 50,000 | (15,000) | 50,000 | | | |

No options were exercised during the year.

Information in connection with the mid-market price of share is provided in Note 6 to the financial statements.

(d) Other Interests

The Company disposed of its freehold property at 12 Curzon Street, London W1Y 7FJ, together with certain related fixtures, for a total consideration of £3,250,000. The property was charged as security for the £2,800,000 convertible secured loan note held by Galactic Properties Limited, in which D.L. Massie and Z.Bino each have a 49% interest, which loan note was repaid in full out of the net proceeds of sale.

Apart from the above none of the directors had or has had a material interest in any contract of significance in relation to the business of the Company or its subsidiary undertakings.

8. TAXATION

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Taxation on profit on ordinary activities | | |
| UK Corporation tax at 33% (1995 - 33%) | 401 | 597 |
| Taxation credits attributable to dividends received | - | 1 |
| Associated undertakings | 40 | 42 |
| | 441 | 640 |
| Prior year items | - | (38) |
| | 441 | 602 |

The tax charge has been reduced as a result of the availability of excess management charges and capital allowances on assets acquired in the year.

9. PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION

| | 1996<br>£000 | 1995<br>£000 |
|---|---|---|
| Dealt with in the accounts of the parent undertaking | 1,347 | 7,569 |

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

10. DIVIDENDS

| | 1996<br>£000 | 1995<br>£000 |
|---|---|---|
| Interim dividend of 0.25p (1995 - 0.2p) per ordinary share | 227 | 182 |
| Proposed final dividend of 0.45p (1995 - 0.4p) per ordinary share | 682 | 364 |
| | 909 | 546 |

11. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on earnings of £1,762,000 (1995 - £2,400,000) and on 118,107,894 ordinary shares being the weighted number of ordinary shares in issue during the period (1995 - 90,941,667) resulting in earnings per share of 1.49p (1995 - 2.40p).

Prior year restatement
On 30 January 1996 the Company announced a rights issue to raise approximately £6m net of expenses. Under the terms of the rights issue 60,627,778 new ordinary shares were issued in March 1996 at 10p per share on the basis of two new ordinary shares for every three existing ordinary shares.

The actual cum rights price on 22 February 1996, the last day of quotation cum rights, was 13p and the theoretical ex rights price for an ordinary share was therefore 11.8p per share. The comparative earnings per share are shown after applying the factor 11.8/13 to the published figures for the year ended 30 June 1995 in order to adjust for the bonus element in the rights issue.

The dilutive effect of unexercised warrants and options (as disclosed in Notes 6 and 7) are not material.

12. TANGIBLE FIXED ASSETS

| Group | Freehold land and buildings<br>£000 | Development properties<br>£000 | Lease premiums<br>£000 | Operating lease equipment<br>£000 | Equipment, fixtures & fittings<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 July 1995 | 2,800 | 1,096 | 52 | 7,675 | 1,648 | 13,271 |
| Additions | - | 160 | - | 23,785 | 134 | 24,079 |
| Disposals | (2,800) | - | - | (1,460) | (995) | (5,255) |
| At 30 June 1996 | - | 1,256 | 52 | 30,000 | 787 | 32,095 |

12. TANGIBLE FIXED ASSETS (continued)

| Group | Freehold land and buildings £000 | Development properties £000 | Lease premiums £000 | Operating lease equipment £000 | Equipment, fixtures & fittings £000 | Total £000 |
|---|---|---|---|---|---|---|
| Depreciation: | | | | | | |
| At 1 July 1995 | 70 | - | 13 | 2,775 | 660 | 3,518 |
| Disposals | (84) | - | - | (783) | (465) | (1,332) |
| Charge | 14 | - | 2 | 1,872 | 123 | 2,011 |
| At 30 June 1996 | - | - | 15 | 3,864 | 318 | 4,197 |
| Net book value: | | | | | | |
| At 30 June 1996 | - | 1,256 | 37 | 26,136 | 469 | 27,898 |
| At 30 June 1995 | 2,730 | 1,096 | 39 | 4,900 | 988 | 9,753 |

a) The only tangible fixed asset of the Company was the freehold land and buildings noted above.

b) All disposals relate to assets of subsidiary undertakings other than the freehold land and buildings which was a Company asset.

c) Development properties comprise fixed assets under construction.

d) The above figures include assets held under finance leases and hire purchase contracts with a total net book value of £1,253,000 (1995 - £2,998,000). The total depreciation charge for the period includes £992,000 (1995 - £1,033,000) in respect of these assets.

13. FIXED ASSET INVESTMENTS

| Group: | Associated undertakings £000 | Own shares £000 | Total £000 |
|---|---|---|---|
| Cost or valuation: | | | |
| At 1 July 1995 | 338 | - | 338 |
| Additions | - | 32 | 32 |
| Share of retained profits of associated undertakings | 74 | - | 74 |
| Disposals | (412) | - | (412) |
| At 30 June 1996 | - | 32 | 32 |
| Net book value: | | | |
| At 30 June 1996 | - | 32 | 32 |
| At 30 June 1995 | 338 | - | 338 |

| Company: | Subsidiary undertakings £000 | Own shares £000 | Total £000 |
|---|---|---|---|
| Cost: | | | |
| At 1 July 1995 | 16,885 | - | 16,885 |
| Additions | - | 32 | 32 |
| At 30 June 1996 | 16,885 | 32 | 16,917 |
| Net book value: | | | |
| At 30 June 1996 | 16,885 | 32 | 16,917 |
| At 30 June 1995 | 16,885 | - | 16,885 |

13. FIXED ASSET INVESTMENTS (continued)

Details of the principal investments in which the Group or the Company holds more than 20% of the nominal value of any class of share capital are as follows:

| Name of company | Country of operation | Holding | Proportion held | Nature of business |
|---|---|---|---|---|
| Subsidiary Undertakings: | | | | |
| Dukemarket Limited | England | Ordinary Shares | 67% | Leisure development |
| IAF Aircraft Management Ltd | England | Ordinary Shares | 100% | Aircraft chartering |
| IAF Securities Ltd | England | Ordinary Shares | 100% | Dealing company |
| IAF Financial Services plc | England | Ordinary Shares | 100% | Financial services |
| IAF Lockbox Services Ltd | England | Ordinary Shares | 100% | Remittance processing |
| IAF Management Services plc | England | Ordinary Shares | 100% } | Management of |
| Top-Up Mortgage Services Ltd | England | Ordinary Shares | 100%*} | instalment credit portfolios |
| International Asset Finance Ltd | England | Ordinary Shares | 100% | Asset finance & advisory services |
| Wren Equipment Finance Ltd | England | Ordinary Shares | 100%* | Leasing company |

The undertakings marked with an asterisk are held indirectly by the Company.

14. DEBTORS

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Group: | | |
| Amounts receivable within one year: | | |
| Trade debtors | 4,130 | 3,775 |
| Net investment in finance leases | 100 | - |
| Other debtors | 1,573 | 1,475 |
| ACT recoverable | 318 | 136 |
| Prepayments and accrued income | 181 | 102 |
| | 6,302 | 5,488 |
| Trade debtors receivable within one year comprise: | | |
| Mortgage receivables | 840 | 1,351 |
| Advances | 2,301 | 220 |
| Other trade debtors | 989 | 2,204 |
| | 4,130 | 3,775 |
| Company: | | |
| Amounts receivable within one year: | | |
| Amounts owed by group undertakings | 20,940 | 9,341 |
| Other debtors | - | 36 |
| ACT recoverable | 318 | 206 |
| Prepayments and accrued income | 19 | 14 |
| | 21,277 | 9,597 |

14. DEBTORS (continued)

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Group: | | |
| Amounts receivable after more than one year: | | |
| Net investment in finance leases | 42 | - |
| Mortgage receivables | 34 | - |
| Advances | - | 291 |
| Other debtors | 101 | 90 |
| | 177 | 381 |
| The aggregate rentals receivable from finance leases during the year by the group were | 85 | - |
| The cost of assets transferred during the year by the group were | 234 | - |

These assets had previously been included within fixed assets as assets subject to operating leases. The Company had no interest in finance leases in either period.

15. CURRENT ASSET INVESTMENTS

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Group: | | |
| Other investments at middle market value: | | |
| Listed on a recognised stock exchange | 302 | 252 |
| Unlisted | 83 | 83 |
| | 385 | 335 |

The Company holds the unlisted investments which comprise a holding of 100,000 redeemable preference shares and 22,500 ordinary shares in Newport Investment Management Limited. The holding represents 15.9% of the voting shares.

16. CREDITORS - amounts falling due within one year

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Group: | | |
| Debt (Note 18) | 5,065 | 1,188 |
| Trade creditors | 69 | 254 |
| Other creditors | 1,252 | 1,391 |
| Corporation tax | 602 | 737 |
| ACT payable | 227 | 136 |
| Accruals and deferred income | 1,750 | 446 |
| Dividend payable | 682 | 364 |
| | 9,647 | 4,516 |

16 CREDITORS - amounts falling due within one year (continued)

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Company: | | |
| Debt (Note 18) | 1,500 | - |
| Amounts owed to group undertakings | 344 | - |
| Other creditors | 32 | - |
| Corporation tax | 690 | 15 |
| ACT payable | 227 | 136 |
| Accruals and deferred income | 115 | 170 |
| Dividend payable | 682 | 364 |
| | 3,590 | 685 |

17. CREDITORS - amounts falling due after more than one year

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Debt (Note 18) | 7,479 | 4,155 |

18. DEBT ANALYSIS

| | 1996 £000 | 1995 £000 |
|---|---|---|
| **Due within one year** | | |
| Group: | | |
| Bank loans | 4,185 | - |
| Obligations under finance leases and hire purchase contracts | 880 | 1,188 |
| | 5,065 | 1,188 |
| Company: | | |
| Bank loans | 1,500 | - |
| **Due after more than one year** | | |
| Group: | | |
| Bank loans | 7,108 | - |
| 5% convertible loan note - 1999 | - | 2,800 |
| Obligations under finance leases and hire purchase contracts | 371 | 1,355 |
| | 7,479 | 4,155 |
| Company: | | |
| 5% Convertible loan note - 1999 | - | 2,800 |

The above debt is repayable as follows:

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Group: | | |
| Due within one year | 5,065 | 3,988 |
| Between one and two years | 3,218 | 1,355 |
| Between two and five years | 4,261 | - |
| | 12,544 | 5,343 |

18. DEBT ANALYSIS (continued)

The bank loans of the Group are due to the following lenders:

| | 1996 £000 | 1995 £000 |
|---|---|---|
| The United Bank of Kuwait plc | 9,793 | - |
| Banca CRT SpA | 1,500 | - |
| | 11,293 | - |
| Company: | | |
| Due within one year | 1,500 | 2,800 |

Certain of the bank loans are secured by part of the Group's operating lease equipment.

The 5% convertible loan note was repaid on 23 October 1995.

19. PROVISION FOR LIABILITIES AND CHARGES

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Group: | | |
| Provision for aircraft maintenance | 297 | - |
| Deferred taxation | - | - |
| | 297 | - |

As disclosed in note 1(f) of the accounting policies, the Group makes a full provision for taxation where it is probable that it will become payable in the foreseeable future. The Group has a potential liability which has not been provided for, calculated using a 33% tax rate, as follows:

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Group: | | |
| Capital allowances in excess of depreciation | 1,059 | 972 |
| Other timing differences | - | 18 |
| Future benefit of tax losses | (148) | (424) |
| | 911 | 566 |

20. CALLED UP SHARE CAPITAL

| Authorised: | Group and Company | | Group and Company | |
|---|---|---|---|---|
| | 1996 Number | 1995 Number | 1996 £000 | 1995 £000 |
| Ordinary shares of 10p each (1995 - 20p) | 180,000,000 | 120,000,000 | 18,000 | 24,000 |

| | Group and Company | | Group and Company | |
|---|---|---|---|---|
| Alotted, called up and fully paid: Ordinary shares of 10p each | 1996 Number | 1995 Number | 1996 £000 | 1995 £000 |
| Opening balance | 90,941,667 | 90,941,667 | 18,188 | 22,735 |
| Reduction in nominal value | - | - | (9,094) | (4,547) |
| Rights issue | 60,627,778 | - | 6,063 | - |
| | 151,569,445 | 90,941,667 | 15,157 | 18,188 |

20. CALLED UP SHARE CAPITAL (continued)

On 27 March 1996, with Court approval, the company reduced its capital to enable new shares to be allotted by way of a rights issue at a price above the nominal value of the shares. The nominal value of each ordinary share of 20 pence each (whether issued or unissued) was reduced to 10 pence each.

| Analysis of changes in share capital during the current and previous years: | 1996 £000 | 1995 £000 |
|---|---|---|
| Opening balance | 18,188 | 22,735 |
| Cash inflow from rights issue | 6,063 | - |
| Reduction in nominal value | (9,094) | (4,547) |
| Closing balance | 15,157 | 18,188 |

Warrants:
At 30 June 1996 the number of warrants to subscribe for ordinary shares in the Company amounted to 1,679,983 (1995 - 1,399,986). As a result of adjustments arising from the rights issue an additional 279,997 warrants were allotted on the basis of one for every five held.

The warrants are exerciseable between 31 December 1996 and 31 December 1998 at a subscription price of 25 pence per ordinary share of 10 pence.

There is a proposal at the forthcoming Annual General Meeting to consolidate the share capital of the Company. The intention is to consolidate every ten existing ordinary shares of 10p each into one ordinary share of £1. Further details are provided in the Report of the Directors.

21. RESERVES

| Group: | Share Premium Account £000 | Other Reserves £000 | Profit & Loss Account £000 |
|---|---|---|---|
| At 1 July 1995 | 4,771 | (15,276) | 5,190 |
| Arising from capital reconstruction | - | 9,094 | - |
| Retained profit for the period | - | - | 853 |
| Share issue expenses | (113) | - | - |
| At 30 June 1996 | 4,658 | (6,182) | 6,043 |

| Company: | Share Premium Account £000 | Other Reserves £000 | Profit & Loss Account £000 |
|---|---|---|---|
| At 1 July 1995 | 4,771 | - | 7,023 |
| Arising from capital reconstruction | - | 9,094 | - |
| Retained profit for the period | - | - | 438 |
| Share issue expenses | (113) | - | - |
| At 30 June 1996 | 4,658 | 9,094 | 7,461 |

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Profit for the financial period | 1,762 | 2,400 |
| Dividends | (909) | (546) |
| | 853 | 1,854 |
| Arising from issue of shares (net of expenses) | 5,950 | - |
| Net addition to shareholders' funds | 6,803 | 1,854 |
| Opening shareholders' funds | 12,873 | 11,019 |
| Closing shareholders' funds | 19,676 | 12,873 |

23. CONTINGENT LIABILITIES AND COMMITMENTS

The Company has given, in the normal course of business, the following guarantees in respect of:

| | 1996 £000 | 1995 £000 |
|---|---|---|
| Amounts drawn against loans granted to subsidiary undertakings | 6,968 | - |
| Hire purchase obligations of subsidiaries | 1,020 | 2,183 |
| Performance bonds | - | 133 |
| | 7,988 | 2,316 |

The contingent liabilities of the group are £Nil (1995 - £133,000).

Amounts contracted for but not provided in the accounts amounted to £Nil (1995 - £3,904,594) for the Group. The Company had no such commitments.

24. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

(i) Annual commitments under non-cancellable operating leases are as follows:

Land and Buildings:

| | Group 1996 £000 | Group 1995 £000 |
|---|---|---|
| Operating leases which expire : | | |
| From two to five years | 23 | - |
| After five years | 263 | 286 |
| | 286 | 286 |

All leases of land and buildings are subject to rent reviews.

24. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS (continued)

(ii) Finance leases and hire purchase contracts:

| | Group 1996 £000 | Group 1995 £000 |
|---|---|---|
| Amounts payable: | | |
| Within one year | 960 | 1,310 |
| Between two and five years | 408 | 1,405 |
| | 1,368 | 2,715 |
| Less finance charges allocated to future periods | (117) | (172) |
| | 1,251 | 2,543 |

Analysis of changes in finance leases and hire purchase contracts during the current and previous periods:

| | Group 1996 £000 | Group 1995 £000 |
|---|---|---|
| Ast 1 July 1995 | 2,543 | 1,007 |
| Capital element of finance lease and hire purchase contract rental payments | (880) | (815) |
| Terminated contracts | (412) | (45) |
| Additional contracts | - | 2,396 |
| At 30 June 1996 | 1,251 | 2,543 |

No leases are held by the Company.

# *Report of the Auditors*
## *for the year ended 30 June 1996*

To the shareholders of IAF Group plc
We have audited the financial statements on pages 10 to 30 on the basis of the accounting policies set out on page 15.

Respective responsibilities of directors and auditors
As described on page 9, the Company's directors are responsibile for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to 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.

Opinion
In our opinion, the financial statements give a true and fair view of the state of the affairs of the Company and Group as at 30 June 1996 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate Governance Matters
In addition to our audit of the financial statements, we have reviewed the directors' statements on page 7 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

Basis of Opinion
We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That bulletin does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion
With respect to the directors' statements on internal financial control and going concern on page 9, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 7 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Robson Rhodes

**Robson Rhodes**
Chartered Accountants and Registered Auditor
5 September 1996

Notice is hereby given that the Annual General Meeting of IAF Group plc will be held at 107 Cannon Street, London EC4N 5AD at 10.00 a.m. on 3 October 1996 for the following purposes:-

**Ordinary Business**

1. To adopt the Report of the Directors and the financial statements for the year ended 30 June 1996.

2. To declare a final dividend of 0.45 pence per ordinary 10 pence share.

3. The re-elect Mr Z. Bino as a Director.

4. To re-appoint Robson Rhodes as Auditors until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.

To transact any other ordinary business of the Company.

**Special Business**

As special business, to consider and if thought fit pass the following resolutions which will be proposed as to resolution 5 as an ordinary resolution and as to resolution 6 as a special resolution:-

5. THAT every ten of the Ordinary Shares of 10p each in issue in the capital of the Company be consolidated into one Ordinary Share of £1 each.

6. THAT the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of that Act) pursuant to the authority conferred by resolution 1 (d) passed on 22 February 1996 as if Section 89 (1) of that Act did not apply to any such allotment, provided that this power shall be limited to:-

   (i) the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of Ordinary Shares and other persons entitled to participate therein in proportion to their respective holdings of Ordinary Shares, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;

   (ii) the allotment of equity securities up to an aggregate nominal amount of £167,998 pursuant to outstanding warrants to subscribe for Ordinary Shares; and

   (iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of £758,000;

   and such power shall expire on the date of the Annual General Meeting of the Company to be held in 1997 or 31 December 1997 (whichever is the earlier), but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board
V.J. Maguire
Secretary
107 Cannon Street
London
EC4N 5AD
5 September 1996

Notes
1. A member entitled to attend and vote may appoint a proxy or proxies to attend and on a poll, vote 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.

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