






*ava*tion PLC

Annual Report 2014



OUR FLEET (AS AT 29 OCTOBER 2014)

Aircraft Type		In Operation	Ordered	Options
Fokker 100		5	-	-
ATR 72-500		6	-	-
ATR 72-600		12	7	27
Airbus A320-200		2	-	-
Airbus A321-200		3	2	-
Total		28	9	27



MODEL

Fokker F100



Airbus A320-200



MODEL

Airbus A321-200



ATR 72-500



MODEL

ATR 72-600

COMPANY INFORMATION

DIRECTORS:

Robert Jeffries Chatfield
Bryant James McLarty (resigned on 6 December 2013)
Roderick Douglas Mahoney
Stephen John Fisher (appointed on 24 April 2014)

COMPANY SECRETARIES:

Siobhan Mary MacGroarty Cool
Duncan Gerard Stephen Scott
Jason Francis Gollogly

REGISTERED OFFICE:

5th Floor Cheyne House
Crown Court 61-63 Cheapside
London EC2V 6AX
United Kingdom

PRINCIPAL PLACE OF BUSINESS:

510 Thomson Road #12-04
SLF Building
Singapore 298135

AUDITORS:

Kingston Smith LLP
Devonshire House
60 Goswell Road
London EC1M 7AD
United Kingdom

SOLICITORS:

Speechly Bircham LLP
6 New Street Square
London EC4A 3LX
United Kingdom

CORPORATE ADVISER:

Loeb Aron & Company Ltd
Cheyne House
Crown Court 62-63 Cheapside
London EC2V 6AX
United Kingdom

REGISTRARS:

Computershare Investor Services LLC
The Pavilions
Bridgewater Road
Bristol BS99 6ZZ
United Kingdom

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CHAIRMAN'S STATEMENT



Background and Outcome

Your Board is pleased to deliver another strong result in respect of the year ended 30 June 2014. The net profit after tax (attributable to equity holders) increased 27 per cent to US\$ 13,312,153 (2013: US\$ 10,515,901) on total income that also increased by 29 per cent to US\$ 56,279,613 (2013: US\$ 43,763,642). This resulted in earnings per share increasing by 18 per cent to 27.40 US cents (2013: 23.25 US cents). Total returns consist of income from aircraft lease payments plus the net asset value (capital) realisable from the sale of the aircraft after repayment of associated debt obligations.

Avation's fleet is diverse, comprising young ATR aircraft and other aircraft including Airbus A321 and A320 along with a small investment in older aircraft. Avation targets growth as well as continual fleet renewal and financial management to ensure the retention of asset values and maximisation of earnings. The Avation fleet of 25 aircraft has an average age of 9.0 years, which is likely to reduce as we add new aircraft and dispose of old aircraft, and average lease term of 6.1 years with a current customer base of airlines in Australia, Europe, North America and the Asia-Pacific region.

Key Achievements

In the period to 30 June 2014, the Group:

- Added two new ATR 72-600 aircraft to the fleet;
- Delivered two new ATR 72-600 aircraft direct to airlines;
- Added new airline customers;
- Re-financed two ATR 72-500 aircraft to significantly lower the cost of debt in respect of those aircraft;
- Acquired one Airbus A320 through the conversion of finance lease to operating lease;
- Lowered average cost of debt; and
- Extended leases on two A321 aircraft in the fleet to 2021.

As of 30 June 2014, the Company had increased net assets by 13 per cent to US\$ 110,766,984 (2013: US\$ 98,236,359). The Company has again been able to lower the average cost of debt during the period and obtain funding from new and existing lenders. Debt facilities on existing aircraft are primarily asset based and matched to the leases in terms of currency, term and loan servicing ensuring there is no "through lease term" re-financing risk.

The Company has continued to generate strong earnings with EBITDA increase of 27 per cent to US\$ 48,723,575 (2013 : US\$ 38,329,167). Purchasing aircraft typically requires a mixture of senior debt, a junior debt tier and equity. The equity may be self generated through internal cash flows. The Company continues to evaluate the state of both debt and equity markets in the context of its ongoing requirements. The directors seek to minimise the cost of funds and have successfully refinanced certain higher cost debt facilities during the year. The underlying results for the Group were extremely strong despite contributory profits from our 69 percent owned subsidiary Capital Lease Aviation PLC during the period being less robust than expected. Since the year end we have increased our ownership of that subsidiary to 95.4% and we will be seeking to improve its performance going forward.

Outlook

The Directors believe they have demonstrated a sustainable business model and are committed to developing Avation as a differentiated aircraft operating lessor that delivers strong and predictable cash yields and attractive returns on invested capital.

Growth in the business is set to accelerate in 2015. The outlook for calendar year 2015 is 44 per cent growth in the aircraft fleet by way of committed deliveries. Avation is scheduled to deliver eight new ATR 72-600 aircraft before the end of FY2015 and an additional three ATR 72-600 aircraft in the second half of calendar year 2015. Avation is actively evaluating additional aircraft acquisition opportunities.

CHAIRMAN'S STATEMENT

The Company has made substantial progress towards funding its 2015 deliveries and is developing formalised capital programmes to provide a diversified base with access to both debt and equity markets. The Company believes that it can obtain access to the necessary debt for the future purchase of aircraft. Access to funding nevertheless remains a risk, which is common to all businesses that are capital intensive. Specific aviation industry risks are also present and include the creditworthiness of client airlines. Other risks remain typical for an aircraft leasing industry that typically uses leverage to build the fleet, along with the finance risks and more particularly the residual value risk and impairment in aircraft assets. The Company has significant balance sheet exposure to Australian based aircraft. The Company is seeking to actively diversify away from Australian economic and geographic risk going forward by marketing to new airline customers.

Whilst the business is focused on funding its continued strong fleet growth, the Board overwhelmingly recognises the importance of rewarding shareholders and is recommending to shareholders to approve a final dividend payment of 2.01 US cents per share (2013: 1.78 US cents). The timetable for this final dividend will be set out in the notice of annual general meeting to be published in due course. The Company aims to maintain a progressive dividend policy. The record date for the final dividend will be announced in the meeting materials for the upcoming annual general meeting.

The Board and I are pleased to deliver another strong set of results and remain committed to building your Company into a respected, profitable, well diversified and strongly cash generative aircraft leasing business. The Board would like to thank the shareholders for their continued support and goodwill and look forward to the future with confidence in the successful development of Avation PLC.



Robert Jeffries Chatfield,
Executive Chairman

Singapore
17 October 2014

BOARD OF DIRECTORS



Jeff Chatfield
Chairman

Mr Chatfield is the executive chairman of Avation PLC and has been instrumental in establishing and growing the Company. Mr Chatfield has a track record of leadership in a variety of profitable and successful businesses.

He is a qualified public company director and business executive experienced in the fields of commercial airlines, aviation, aircraft leasing and finance, electronic commerce, investment management, radio and TV broadcasting. Mr Chatfield holds both Bachelor's and Master's Degrees in engineering from the University of Western Australia where he graduated top of the class. He has been involved in a number of successful businesses both private and public, the majority of which have been strongly cash flow generative. In the recent past Mr Chatfield was chairman of Skywest Airlines Ltd, a LSE-ASX dual-listed public company recently sold to Virgin Australia Ltd. He is a member of the Australian Institute of Company Directors and a fellow of the Singapore Institute of Directors. Mr Chatfield was born in Perth, Australia and is a Permanent Resident of Singapore.



Rod Mahoney
Executive Director

Mr Mahoney is the Chief Operating Officer and an Executive Director of the Company. Before this executive appointment, he was a fleet planning and aircraft procurement consultant to the Company. He has previously been a project advisor to

a variety of Asia-Pacific airlines, suppliers and other aviation businesses, including Virgin Blue and V Australia and also held various senior executive positions at Airbus for 23 years, largely within the sales divisions covering Europe and Africa, China and the Pacific. He holds a Bachelor of Science Degree in Aeronautical Engineering (BSc. Hons), a Masters in Air Transport (MSc.) and a Masters of Applied Finance (MAppFin). Mr Mahoney holds dual citizenship of the United Kingdom and Australia and resides in Singapore. Mr Mahoney is a graduate member of the Australian Institute of Company Directors and a member of the Singapore Institute of Directors.



Stephen Fisher PhD
Non-Executive Director

In addition to his role at Avation PLC, Stephen is Chairman, Principal and Chief Investment Officer of First Degree Global Asset Management Pte. Ltd., a privately owned asset management company in Singapore founded

in 2011. First Degree Global Asset Management operates a number of strategies for its clients including a Fixed Income focused hedge fund.

Stephen has had twenty-two years experience as an investment professional with leading investment management groups in the United States, Asia and Australia. From 2000 to 2011 he was Managing Director and Head of Global Fixed Income Product – Asia Pacific at JPMorgan Asset Management. Stephen held the positions of Australian Head of Capital Markets Research from 1992-1996, and Asia Pacific Regional Head of Capital Markets Research at J.P. Morgan Investment Management, Inc. from 1996-1998.

Stephen's particular areas of expertise are in quantitative analysis of fixed income, equities, asset allocation and derivatives. He has advised Central Banks and Sovereign Wealth Funds on their reserves management practice, and his research on investment management issues has been widely published in academic and industry journals.

Stephen has a Master of Science (Finance) and a PhD (Finance) from the WE Simon Graduate School of Business Administration, University of Rochester, New York and a Bachelor of Economics (First Class Honours) from the University of Sydney.

STRATEGIC REPORT



The Directors present their strategic report for the year ended 30 June 2014.

Business Overview

Avation PLC and its subsidiaries (“Avation”, the “Group”) is a specialist commercial passenger aircraft leasing group managing a fleet of 25 aircraft as at 30 June 2014 which it leases to airlines across the world. Avation’s customers include US Airways, Virgin Australia, Thomas Cook, Condor, Fiji Airways and UNI Air. The Company’s fleet includes Airbus A320 family and Fokker 100 jet and ATR 72 twin engine turboprop aircraft.

Avation operates from its headquarters in Singapore where it is tax resident and since 17 April 2014 a beneficiary of the Singapore Aircraft Leasing Scheme tax incentive.

Avation’s management team has extensive experience in all areas of the aviation industry and has the expertise to select aircraft to bring under Avation’s management that will deliver value to the company, performance to its customers and returns to its shareholders.

Coinciding with the expected future delivery of additional ATR 72s ordered from the manufacturer and potential acquisitions of other aircraft, Avation will continue to grow in terms of the size and quality of its managed fleet and the financial returns it generates.

Avation is listed on the main list of the London Stock Exchange under the ticker symbol LSE: AVAP.

Business model

Avation aims to generate growth in its fleet and build shareholder value by focussing on 2 sectors being a) new turbo-prop regional aircraft, principally the popular fuel efficient

ATR 72-600 model and b) second-hand narrow body jets in particular the popular Airbus A320/A321 family and Boeing 737NG aircraft. Owning different types of aircraft provides a benefit in terms of diversification of market and residual value risk.

The Group finances the acquisition of new aircraft using internally generated cash flows and a mixture of senior and junior debt finance. Debt is re-financed on older aircraft when there is an opportunity to reduce overall cost of debt funding and also to release equity for acquiring new aircraft.

The Board applies prudent financial management principles to manage risk when acquiring aircraft by seeking to match lease and financing duration, using mostly fixed interest rate debt and amortising debt aggressively over lease periods.

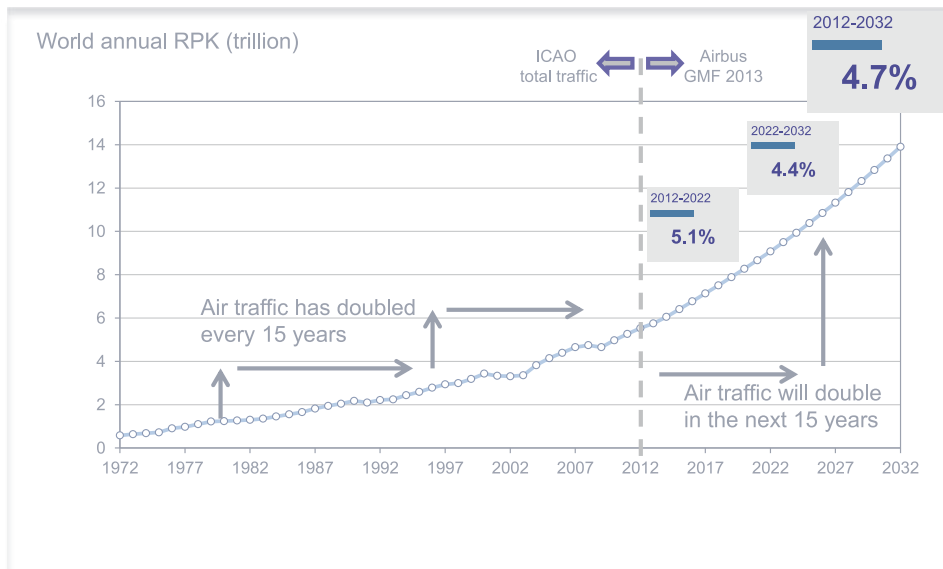
As the fleet grows the Group will also seek to diversify the customer base as part of the overall credit risk management policy.

The Avation fleet of 25 aircraft has an average age of 9.0 years, which is likely to reduce as the Group adds new aircraft and disposes of old aircraft, and average remaining lease term of 6.1 years with a current customer base of airlines in Australia, Europe, North America and the Asia-Pacific region.

Markets and trends

Aircraft leasing is a growth industry with a growing market share of the world’s total commercial passenger aircraft fleet. Avation expects that the percentage of leased aircraft in the world fleet will continue to grow over the coming years due to the flexibility that the leasing model provides for airlines and also due to increased access to financial capital for leasing companies.

STRATEGIC REPORT



Source: Airbus Global Market Forecast 2013

The aircraft leasing industry also benefits from good long-term credit fundamentals supported by growth in air travel demand, capital constraints amongst airlines and normal cycles of aircraft replacement.

The world fleet of commercial passenger aircraft is predicted to grow substantially with aircraft traffic expected to double every 15 years. Forecast new aircraft deliveries over the next 20 years are 29,000 aircraft; of which 36% are expected to be in Asia, 20% in Europe, 19% in North America and of the total, 69% are expected to be single aisle.

Improved access to capital including unsecured debt and low interest rates, is supporting the growth plans of both established leasing companies and new entrants into the global aircraft leasing market. Many stand-alone aircraft lessors have improved their leverage profile over the last several years and have been able to diversify funding sources.



Principal risks and uncertainties

The aircraft leasing sector is competitive and Avation is exposed to a number of market related, operational and financial risks. The Group is committed to mitigating risk across the business through the application of prudent risk management policies. The risks and uncertainties described below are those that the Group has identified as the most significant risks to the business. Avation's Board of Directors is responsible for managing risk and reviews risk management policies regularly.

Market related risks

Exposure to the airline industry

The Group's customers are commercial airlines who are financially exposed to the supply and demand for passenger air travel. The financial condition of commercial airlines may weaken due to a number of factors including but not limited to local and global economic conditions, increased competition between airlines, speculative ordering of new aircraft, war, terrorism or natural disasters. If the financial condition of the Group's airline lessee customers weakens for any reason, the Group may be exposed to increased risks of lessee default and reduced lease rates for its aircraft.

STRATEGIC REPORT

Asset value risk

Fluctuations in the supply and demand for aircraft and aircraft travel may impact values and lease rates for the Group's aircraft. Market forces and prevailing economic conditions may change over the economic lives of the Group's aircraft and could have a positive or negative impact on valuations. Advances in aircraft technology may create obsolescence in the fleet before the end of the current estimated useful life. The Group regularly obtains independent third party valuations the fleet and may dispose of aircraft in order to reduce its exposure to certain aircraft types. Avation has a policy of investing in popular aircraft types on the basis that asset values and lease rates will be supported by continuing high demand for these aircraft.

Operational risks

Economic, legal and political risks

Avation leases aircraft to lessees in different jurisdictions. As such the Group is exposed to economic, legal and political risk in those jurisdictions. Avation's aircraft are subject to operational risks specific to the aviation sector resulting from war, acts of terrorism or the threat of terrorism and natural disasters. The Group mitigates against these risks by requiring airline lessees to maintain adequate insurance over the aircraft.

Regulatory risks

Avation's fleet operates in many jurisdictions and complies with tax and other regulatory requirements in those jurisdictions. There is a risk that changing tax and regulatory regimes may have an impact on the business and financial results.

Lessee risks

Avation's airline lessees are responsible for all maintenance and safety checks. The requirement for each airline lessee to service and maintain the aircraft are set out in the lease agreements. There is a risk that airlines may not properly maintain aircraft which may lead to an impairment of the aircraft's value. In order to mitigate against this risk the Group closely monitors each airline's usage of aircraft and their compliance with agreed maintenance schedules. Avation can require lessees to pay additional maintenance reserve payments in order to ensure that there is adequate funding at all time for proper maintenance of the aircraft.

Financial risks

Avation's financial risk management objectives and policies are set out in note 7 to the financial statements and are as follows:

- Airline industry risks
- Credit risk
- Interest rate risk
- Foreign currency risk

Performance

An evaluation of Avation's performance in the year ended 30 June 2014 is contained in the Chairman's Statement.

Environment

Avation is committed to environmental responsibility as part of its business strategy. This is achieved by investing in technologically advanced designs of commercial aircraft that offer improved fuel efficiency and lower emissions. The majority of our fleet are modern regional turbo-prop aircraft which provide significant environmental benefits over comparable jet aircraft due to their more economical use of fuel and consequently lower carbon dioxide emissions.

Employees

A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 30 June 2014 is set out below:

	Male	Female
Directors of the Company	3	–
Senior managers	2	–
Other employees	6	5

On behalf of the board



Robert Jeffries Chatfield
Director

17 October 2014

DIRECTORS' REPORT



The directors have the pleasure in presenting their report and financial statements for the financial year ended 30 June 2014.

Principal activities and business review

The principal activities of the Group is leasing of aircraft. Details of activities carried out by subsidiary companies is set out in Note 22 to these financial statements.

The principal risks and uncertainties affecting the Group's turnover are described in the Strategic Report on page 9.

The full business review including KPI's can be found in the Strategic Report on page 9 and in Note 7 to these financial statements. The Group has reviewed the environmental

matters in the Strategic Report on page 11.

Results and dividends

The consolidated statement of profit or loss and other comprehensive income for the year is set out on page 22. The directors have proposed to pay a 2.01 US cents final dividend.

Directors and their interests

The directors who served the Company during the year together with their interests and deemed interests in the shares of the Company and other Group companies at the beginning (or subsequent date of appointment) and end of the year, were as follows:

The Company	Direct interest (in name of director and nominee)		Deemed interest	
	30 June 2014	1 July 2013	30 June 2014	1 July 2013
Ordinary Shares of £0.01 each				
Robert Jeffries Chatfield	1	1	10,135,365	8,855,365
Bryant James McLarty	N/A	117,300	N/A	-
Roderick Douglas Mahoney	240,000	158,138	-	-
Stephen John Fisher	5,000	-	-	-

DIRECTORS' REPORT

Significant Shareholdings

	Ordinary shares	Percentage
Vidacos Nominees Limited	10,635,732	21.64%
Chase Nominees Limited	9,331,140	18.98%
Fitel Nominees Limited	4,707,702	9.58%
HSBC Global Custody Nominee (UK) Limited	3,569,916	7.26%
Chase Nominees Limited	2,870,000	5.84%
HSBC Global Custody Nominee (UK)	2,055,000	4.18%

Equal Opportunities Policy

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

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

Directors' Insurance

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

Green House Gas Emissions Statement

It is not practical for the Company to calculate its green house gas emissions. Usage of the Company's aircraft is under the control of lessees who are not required to provide emissions data to the Company.

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the financial year are shown in Note 30. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

By a resolution passed at the AGM held on 4 December 2012 the Company's Directors are authorised to buy back shares not exceeding 10 per cent of the total number of shares in issue on that date. Share buy backs may be at market prices but not under £0.50 and not above £3.00 per share, including commissions and other related expenses.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfers of securities or on voting rights.

Details of employees share option schemes are set out in Note 31.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regards to the appointment and replacement of directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement below.

Corporate Governance Statement

The Board is accountable to the shareholders for good corporate governance of the group. The principles of corporate governance and a code of best practice are set out in the UK Corporate Governance Code issued in September 2012. The company is not required to comply in full with the code nor state any areas which it does not comply. The Board have adopted policies that they consider to be appropriate for the Company's size and nature.

The Board acts as the administrative, management and supervisory body overseeing the operation of the Group. The Board consist of 2 executive directors (Robert Jeffries Chatfield and Roderick Douglas Mahoney) and 1 non-executive director (Stephen John Fisher), and the following senior personnel (Richard Wolanski, Duncan Scott). The Board meets at least six times a year, matters for discussion at formal meetings are clearly laid down and decisions recorded. The board is responsible for overall corporate strategy, the reviewing and approval of acquisition and divestment opportunities, the approval of significant capital expenditures, the review of

DIRECTORS' REPORT



budgets, trading performances and all significant financial and operational issues.

The Company operates the following committees whose members are detailed below:

- Audit Committee- Robert Jeffries Chatfield and Stephen John Fisher
- Risk Committee- Roderick Douglas Mahoney and Iain Cawte

The Board is responsible for identifying and evaluating the major business risks faced by the Company and for determining and monitoring the appropriate course of action to manage these risks. The key risks the Company faces are described in the risk assessment section of this annual report and accounts.

The Board conducts a review of the effectiveness of the Company's systems of internal control and risk management on an annual basis. Following this review it has concluded that the Company's financial, operational and compliance controls and risk management procedures are appropriate and suitable to enable the board to safeguard shareholders' investments and the Company's assets.

The process and systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve the Company's objectives, and can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

Statement as to disclosure of information to auditors

- (a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Kingston Smith LLP have indicated their willingness to continue in office and in accordance with s489 of the Companies Act 2006. A resolution proposing that they be reappointed as auditors of the Company will be put to the Annual General Meeting.

Purchase of own shares

During the year, the Company purchased 300,000 shares for US\$467,835. These were held as treasury shares and presented within shareholders equity.

On behalf of the board

Handwritten signature of Robert Jeffries Chatfield.

Robert Jeffries Chatfield
Director

17 October 2014

DIRECTORS' REMUNERATION REPORT

Introduction

This report has been prepared in accordance with Part 15 Chapter 6 of the Companies Act 2006. As required a resolution to approve the Directors' remuneration will be proposed at the forthcoming Annual General Meeting of the Company at which the financial statements will be approved. The vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to the individual levels of remuneration.

Remuneration (audited)

The components of remuneration are:

- Basic salary and benefits determined by the Remuneration Committee which are included in employment agreements and reviewed annually;
- Bonuses based upon performance of the Company and the individual concerned; and
- Share options.

Individual Director's remuneration from the group was as follows:

Group	Salaries and fees US\$	Bonuses US\$	Expenses allowances US\$	Taxable benefits US\$	Total 2014 US\$	Total 2013 US\$
Executive directors						
Robert Jeffries Chatfield	551,676	-	-	86,740	638,416	266,844
Roderick Douglas Mahoney	211,690	108,496	-	-	320,186	178,402
Non-executive directors						
Stephen John Fisher	2,669	-	-	-	2,669	-
Andrew Baudinette (resigned on 3 December 2012)	N/A	N/A	N/A	N/A	N/A	105,448
Bryant James McLarty (resigned 6 December 2013)	19,146	-	-	-	19,146	31,500
	785,181	108,496	-	86,740	980,417	582,194

Taxable benefits mainly relate to housing expenses and children school fees.

Service contracts

The employment contracts of the executive directors with the Company are terminated by either party with no less than four weeks' notice in writing to the other.

The service contracts of the directors are as follows:

	Date of contract	Unexpired term	Notice period	Compensation payable on early termination
Robert Jeffries Chatfield	29 April 2013	Indefinite	4 months	-
Roderick Douglas Mahoney	16 December 2011	Indefinite	4 weeks	-
Bryant James McLarty	28 November 2007	Indefinite	1 month	-

DIRECTORS' REMUNERATION REPORT



Share options and warrants

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

Each share warrant converts into one ordinary share of Avation PLC on exercise. No amounts are paid or are payable by the recipient on receipt of the warrant. The warrants carry neither rights to dividends nor voting rights. Warrants may be exercised at any time from the date of vesting to the date of their expiry for those granted on 12 December 2011. There are no performance conditions that need to be met before warrants can be exercised. The warrants granted on 4 November 2013 has a 3 years vesting schedule and the details are as follows:

Vesting period	Proportion of total share options that are exercisable
Before 20 November 2014	0 per cent
On 20 November 2014 and before 20 November 2015	Up to 33 per cent of the grant
On 20 November 2015 and before 20 November 2016	Up to another 33 per cent of the grant Or Up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 20 November 2016	Balance Or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

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

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

DIRECTORS' REMUNERATION REPORT

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

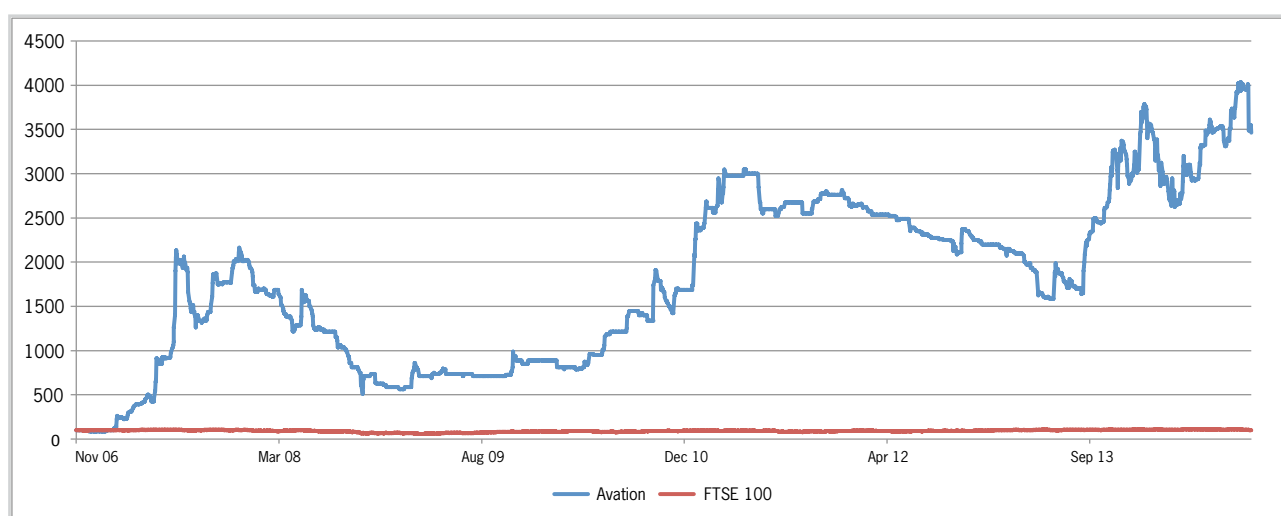
Director's name	Date granted	Warrant price	Balance at beginning of year	Granted during the year	Exercised/ expired during the year	Balance at end of year
Robert Jeffries Chatfield *	12 Dec 2011	110.5 p	400,000	-	(400,000)	-
Robert Jeffries Chatfield *	4 Nov 2013	110.5 p	-	335,000	-	335,000
Roderick Douglas Mahoney**	4 Nov 2013	110.0 p	-	300,000	-	300,000

* Robert Jeffries Chatfield was granted the share warrants via Epsom Assets Limited.

** Roderick Douglas Mahoney was granted the share warrants via Douglas Aviation Pte Ltd.

Company's performance

The graph below shows the total shareholder return on a holding of shares in the Company as against the average total shareholder return of the companies comprising the FTSE100 index over the last five years. The FTSE 100 Index was selected because in the opinion of the Board it is the most appropriate for the Company for the purposes of a benchmark.



	2014	2013	2012	2011	2010
Executive Chairman single figure remuneration	US\$638,416	US\$266,844	US\$249,808	US\$295,409	USA\$208,430
Annual bonus pay-out (as % of maximum)	-	-	-	-	-
Long term incentive vesting rates against maximum opportunity %	NA	NA	NA	NA	NA

The above table shows the prescribed remuneration data for the Director, Robert Jeff Chatfield, the Executive Chairman undertaking the role of Group Chief Executive Officer during each of the last five financial years.

Notes:

1) No bonus has been paid to the Executive Chairman

DIRECTORS' REMUNERATION REPORT

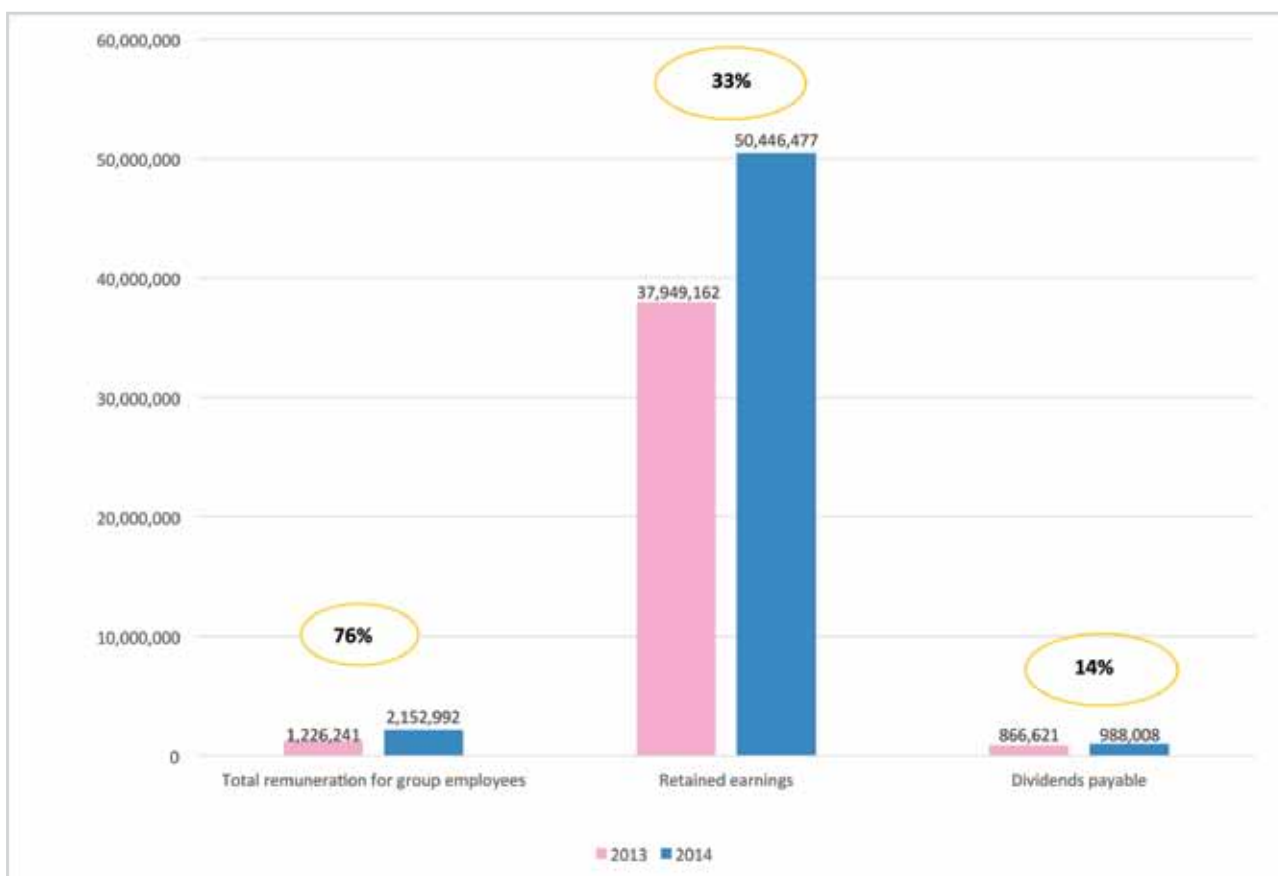
Percentage change in remuneration of Chief Executive Officer

The table below sets out the percentage change in the remuneration of the Executive Chairman who is undertaking the role of Group Chief Executive Officer compared to that of all employees of the Group.

	% change in remuneration from 2013 to 2014		
	% change in base salary	% change in annual bonus	% change in taxable benefits
Executive Chairman	107%	–	100%
All employees	49%	320%	100%

Relative importance of spend on pay

The Chart below displays the relative expenditure of the Company on various matters, as required (in the case of remuneration for group employees and shareholder distributions) by the relevant remuneration regulations:



DIRECTORS' REMUNERATION REPORT

Directors' remuneration policy

The Company applies a policy for Directors' remuneration which is designed to meet the following objectives:

- Provide a fair and transparent remuneration policy that is in alignment with shareholders' interests;
- Provide both immediate and incentive remuneration that is sufficient to attract and retain executives;
- Be consistent with best practice for governance of stock exchange listed companies;
- Allow claw-back of incentives from executives should previous performance be found to have led to future adverse circumstances for the Company; and
- Always ensure an alignment between performance and compensation.

The Company's targets the following outcomes in applying its policy to ensure alignment of Directors' remuneration and shareholders' interests:

- Share price appreciation;
- Increase in the Company's earnings per share;
- Reliable and high quality financial reporting;
- Growth in asset value and profits; and
- Dividend growth.

Remuneration of the Company's Executive Directors is comprised of the following components:

- Base salary;
- Short-term incentives in the form of a cash bonus for linked to performance against individual KPIs; and
- Long-term incentives in the form of share warrants and/or performance shares.

Remuneration of the Company's Non-Executive Directors is comprised of fixed Directors' Fees.

The Board as a whole considers the remuneration of the directors and there has been no external advisers used. The remuneration report was approved in the 2013 AGM on a show of hands.

On behalf of the Board



Robert Jeffries Chatfield
Director

17 October 2014

DIRECTORS' RESPONSIBILITIES



Photo: Airbus S.A.S.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the EU.

Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and the financial performance and cash flows of the Group for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.
- present information, including accounting policies, in a manner that provides relevant reliable, comparable and understandable information.
- provide additional disclosures when compliance with specific IFRSs are insufficient to enable the users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- i. the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group; and
- ii. the strategic report includes a fair review of the development and performance of the business and the position of the Company and of the Group, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Robert Jeffries Chatfield
Director

17 October 2014

REPORT OF THE AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVATION PLC

We have audited the financial statements of Avation PLC for the year ended 30 June 2014 which comprise the Consolidated Statement of Profit or Loss and other Comprehensive Income, the Company Statement of Profit or Loss and other Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken for no purpose other than to draw to the attention of the Company's members those matters which we are required to include in an auditors' report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the Company and Company's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 20 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we became aware of any apparent material misstatements or inconsistencies we consider the implications in our report.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June

2014 and of the Group's profit for the year then ended;

- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been prepared properly in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Corporate Governance Statement included in the Directors' report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; and
- a Corporate Governance Statement has not been prepared by the Company.



Mark Twum-Ampofo (Senior Statutory Auditor)

For and on behalf of Kingston Smith LLP, Statutory Auditor

Devonshire House
60 Goswell Road
London
EC1M 7AD

17 October 2014

AVATION PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	Note	2014 US\$	2013 US\$
Continuing operations			
Revenue	9	52,255,209	42,739,991
Cost of sales		–	(822,887)
Gross profit		52,255,209	41,917,104
Other income	10	4,024,404	1,846,538
Total income		56,279,613	43,763,642
Other operating expenses	11	(15,857,335)	(13,236,614)
Expenses			
- Administrative expenses	12	(6,957,715)	(3,564,798)
- Finance expense	13	(16,906,001)	(12,992,553)
Profit before taxation	15	16,558,562	13,969,677
Taxation	16	(2,295,492)	(2,004,684)
Profit for the financial year		14,263,070	11,964,993
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Revaluation loss on property, plant and equipment, net of tax		–	(1,780,368)
		–	(1,780,368)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising on consolidation		2,045	603
		2,045	603
Other comprehensive income, net of tax		2,045	(1,779,765)
Total comprehensive income for the financial year, all attributable to equity holders of the Company		14,265,115	10,185,228
Profit attributable to:			
Equity holders of the parent		13,312,153	10,515,901
Non-controlling interest		950,917	1,449,092
		14,263,070	11,964,993
Total comprehensive income attributable to:			
Equity holders of the parent		13,313,550	9,365,487
Non-controlling interest		951,565	819,741
		14,265,115	10,185,228
Earnings per share			
- Basic	17	27.40 cents	23.25 cents
- Fully diluted		27.40 cents	23.25 cents

AVATION PLC

**COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

	2014	2013
	US\$	US\$
Profit for the financial year	1,121,282	2,328,931
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Revaluation gains on property, plant and equipment, net of tax	–	2,839,584
Other comprehensive income, net of tax	–	2,839,584
Total comprehensive income for the financial year	1,121,282	5,168,515

The Company is exempt from publishing its income statement pursuant to Section 408 of Companies Act 2006.

AVATION PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	2014 US\$	2013 US\$
ASSETS			
Current assets:			
Cash and cash equivalents	18	23,394,739	19,623,244
Trade and other receivables	19	2,804,086	6,337,909
Prepayments	20	2,156,478	1,094,380
Inventories	21	-	438
Total current assets		<u>28,355,303</u>	<u>27,055,971</u>
Non-current assets:			
Trade and other receivables	19	11,268,750	9,300,261
Prepayments	20	6,295,123	8,442,671
Property, plant and equipment	23	367,325,131	347,200,389
Goodwill	24	2,384,008	2,384,008
Total non-current assets		<u>387,273,012</u>	<u>367,327,329</u>
Total assets		<u>415,628,315</u>	<u>394,383,300</u>
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	25	12,641,301	12,088,802
Deferred lease income	26	273,110	207,132
Provision for taxation		1,098,664	986,556
Loans and borrowings	27	55,673,186	24,243,718
Short-term provisions	28	-	3,757,081
Total current liabilities		<u>69,686,261</u>	<u>41,283,289</u>
Non-current liabilities:			
Trade and other payables	25	8,188,983	9,088,610
Deferred lease income	26	1,579,332	1,381,260
Loans and borrowings	27	218,984,900	239,205,865
Deferred tax liabilities	29	6,421,855	5,187,917
Total non-current liabilities		<u>235,175,070</u>	<u>254,863,652</u>
Equity attributable to shareholders:			
Share capital	30	891,301	878,137
Treasury shares	30	(682,333)	(214,498)
Share premium		31,424,215	29,809,334
Assets revaluation reserve		10,158,496	10,158,496
Capital redemption reserve		11,564	11,564
Warrant reserve		-	103,565
Capital reserve		3,856,141	2,530,212
Foreign currency translation reserve		1,146	(251)
Retained earnings		<u>50,446,477</u>	<u>37,949,162</u>
		96,107,007	81,225,721
Non-controlling interest		<u>14,659,977</u>	<u>17,010,638</u>
Total equity		<u>110,766,984</u>	<u>98,236,359</u>
Total liabilities and equity		<u>415,628,315</u>	<u>394,383,300</u>

Approved by the board and authorised for issue on 17 October 2014



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 Robert Jeffries Chatfield
 Director

AVATION PLC

**COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	Note	2014 US\$	2013 US\$
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	18	1,974,783	3,406,322
Trade and other receivables	19	31,578,274	19,096,712
Total current assets		<u>33,553,057</u>	<u>22,503,034</u>
Non-current assets:			
Trade and other receivables	20	11,268,750	9,264,244
Investment in subsidiaries	22	6,968,639	5,239,692
Property, plant and equipment	23	19,131,160	20,171,641
Total non-current assets		<u>37,368,549</u>	<u>34,675,577</u>
Total assets		<u>70,921,606</u>	<u>57,178,611</u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Trade and other payables	25	18,492,456	3,840,760
Provision for taxation		-	-
Loans and borrowings	27	1,415,411	1,415,411
Total current liabilities		<u>19,907,867</u>	<u>5,256,171</u>
Non-current liabilities:			
Trade and other payables	25	958,091	2,071,487
Loan and borrowings	27	10,639,398	12,054,807
Deferred tax liabilities	29	623,548	366,533
Total non-current liabilities		<u>12,221,037</u>	<u>14,492,827</u>
Capital and reserves:			
Share capital	30	891,301	878,137
Treasury shares	30	(682,333)	(214,498)
Share premium		31,424,215	29,809,334
Assets revaluation reserve		2,873,147	2,873,147
Capital redemption reserve		11,564	11,564
Warrant reserve		-	103,565
Retained earnings		4,274,808	3,968,364
Total equity		<u>38,792,702</u>	<u>37,429,613</u>
Total liabilities and equity		<u>70,921,606</u>	<u>57,178,611</u>

Approved by the board and authorised for issue on 17 October 2014



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Robert Jeffries Chatfield
Director

AVATION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	Share capital US\$	Treasury share US\$	Share premium US\$	Assets revaluation reserve US\$	Capital Redemption reserve US\$	Warrant Reserve US\$	Capital reserve US\$	Foreign currency translation reserve US\$	Retained earnings US\$	Total US\$	Non-Controlling Interest US\$	Total Equity US\$
Balance at 1 July 2013	878,137	(214,498)	29,809,334	10,158,496	11,564	103,565	2,530,212	(251)	37,949,162	81,225,721	17,010,638	98,236,359
Profit for the year	-	-	-	-	-	-	-	-	13,312,153	13,312,153	950,917	14,263,070
Other comprehensive income	-	-	-	-	-	-	-	1,397	-	1,397	648	2,045
Total comprehensive income	-	-	-	-	-	-	-	1,397	13,312,153	13,312,153	951,565	14,265,115
Dividend related to 2013 paid	-	-	-	-	-	-	-	-	(866,621)	(866,621)	-	(866,621)
Purchase of treasury shares	-	(467,835)	-	-	-	-	-	-	-	(467,835)	-	(467,835)
Treasury shares of a subsidiary	-	-	-	-	-	-	168,598	-	-	168,598	78,830	247,428
Increase in issued share capital	13,164	-	1,625,942	-	-	(51,782)	-	-	-	1,587,324	-	1,587,324
Share issue expenses	-	-	(11,061)	-	-	-	-	-	-	(11,061)	-	(11,061)
Warrant expired	-	-	-	-	-	(51,783)	-	-	51,783	-	-	-
Changes in ownership interest in a subsidiary- acquisition of non-controlling interests without a change in control	-	-	-	-	-	-	1,157,331	-	-	1,157,331	(3,381,056)	(2,223,725)
Balance at 30 June 2014	891,301	(682,333)	31,424,215	10,158,496	11,564	-	3,856,141	1,146	50,446,477	96,107,007	14,659,977	110,766,984

AVATION PLC

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

	Share capital US\$	Treasury share US\$	Share premium US\$	Assets revaluation reserve US\$	Capital Redemption reserve US\$	Warrant Reserve US\$	Capital reserve US\$	Foreign currency translation reserve US\$	Retained earnings US\$	Total US\$	Non-Controlling Interest US\$	Total Equity US\$
Balance at 1 July-2012- in previous presentational Currency (GBP)	423,745	-	14,192,267	5,465,206	7,000	120,779	1,636,511	2,515,434	17,790,185	42,151,127	10,369,929	52,521,056
Balance at 1 July 2012- in current presentational currency (US\$)	779,618	-	23,047,234	11,309,284	11,564	192,946	2,530,212	(625)	28,113,618	65,983,851	16,190,897	82,174,748
Profit for the year	-	-	-	-	-	-	-	-	10,515,901	10,515,901	1,449,092	11,964,993
Other comprehensive income	-	-	-	(1,150,788)	-	-	-	374	-	(1,150,414)	(629,351)	(1,779,765)
Total comprehensive income	-	-	-	(1,150,788)	-	-	-	374	10,515,901	9,365,487	819,741	10,185,228
Dividend related to 2012 paid	-	-	-	-	-	-	-	-	(745,618)	(745,618)	-	(745,618)
Purchase of treasury shares	-	(214,498)	-	-	-	-	-	-	-	(214,498)	-	(214,498)
Increase in issued share capital	98,519	-	7,100,985	-	-	(24,120)	-	-	-	7,175,384	-	7,175,384
Share issue expenses	-	-	(338,885)	-	-	-	-	-	-	(338,885)	-	(338,885)
Warrant expenses	-	-	-	-	-	(65,261)	-	-	65,261	-	-	-
Balance at 30 June 2013	878,137	(214,498)	29,809,334	10,158,496	11,564	103,565	2,530,212	(251)	37,949,162	81,225,721	17,010,638	98,236,359

During the current financial year, the Company increased its shareholding in its subsidiary, Capital Lease Aviation PLC from 62.07% to 68.85%. The consideration for the acquisition of the CLA shares is by way of cash consideration of US\$880,917 and through the allotment of 381,679 of the Company's ordinary shares.

The dividend paid during the year was for 1.78 US cents (2013: 1.04p) per share.

AVATION PLC

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	Share capital US\$	Treasury Share US\$	Share premium US\$	Asset Revaluation Reserve US\$	Capital redemption Reserve US\$	Warrant Reserve US\$	Retained earnings US\$	Total US\$
Company								
Balance at 1 July 2013	878,137	(214,498)	29,809,334	2,873,147	11,564	103,565	3,968,364	37,429,613
Profit for the year	–	–	–	–	–	–	1,121,282	1,121,282
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	1,121,282	1,121,282
Dividend relating to 2013 paid	–	–	–	–	–	–	(866,621)	(866,621)
Purchase of treasury shares	–	(467,835)	–	–	–	–	–	(467,835)
Increase of issued share capital	13,164	–	1,625,942	–	–	(51,782)	–	1,587,324
Share issue expenses	–	–	(11,061)	–	–	–	–	(11,061)
Warrant expired	–	–	–	–	–	(51,783)	51,783	–
Balance at 30 June 2014	891,301	(682,333)	31,424,215	2,873,147	11,564	–	4,274,808	38,792,702
Balance at 1 July 2012								
In previous presentational Currency (GBP)	423,745	–	14,192,267	22,158	7,000	120,779	2,031,677	16,797,626
Balance at 1 July 2012	779,618	–	23,047,234	33,563	11,564	192,946	2,319,790	26,384,715
Profit for the year	–	–	–	–	–	–	2,328,931	2,328,931
Other comprehensive income	–	–	–	2,839,584	–	–	–	2,839,584
Total comprehensive income	–	–	–	2,839,584	–	–	2,328,931	5,168,515
Dividend relating to 2012 paid	–	–	–	–	–	–	(745,618)	(745,618)
Purchase of treasury shares	–	(214,498)	–	–	–	–	–	(214,498)
Increase of issued share capital	98,519	–	7,100,985	–	–	(24,120)	–	7,175,384
Share issue expenses	–	–	(338,885)	–	–	–	–	(338,885)
Warrant expenses	–	–	–	–	–	(65,261)	65,261	–
Balance at 30 June 2013	878,137	(214,498)	29,809,334	2,873,147	11,564	103,565	3,968,364	37,429,613

The dividend paid during the year was for 1.78 US cents (2013: 1.04p) per share.

AVATION PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	2014 US\$	2013 US\$
Cash flows from operating activities:		
Profit before taxation	16,558,562	13,969,677
Adjustments for:		
Depreciation expense	15,259,012	11,366,937
Claim on maintenance reserve	(114,927)	1,860,732
Inventories written off	438	-
Impairment of property, plant and equipment	713,250	8,945
Amortisation of loan premium	1,078,239	904,658
Amortisation of interest expense on deposit collected	257,883	570,267
Interest expense	15,569,879	11,517,628
Profit on sale of property, plant and equipment	(3,322,468)	-
Finance income	(273,113)	(582,844)
Interest income	(23,378)	(28,727)
Operating profit before working capital changes	45,703,377	39,587,273
Movement in working capital:		
Trade and other receivables and prepayments	1,572,545	(4,868,068)
Inventories	-	13,878
Deferred lease income	6,167	765,976
Trade and other payables	(261,355)	3,044,789
Short-term provisions	(3,642,154)	(1,072,820)
Cash from operations	43,378,580	37,471,028
Interest paid	(14,882,539)	(11,093,273)
Interest received	23,378	28,727
Corporation tax paid	(949,446)	(999,556)
Net cash from operating activities	27,569,973	25,406,926
Cash flows from investing activities:		
Cash inflow from disposal of a subsidiary – See Note A	-	1,125,032
Purchase of property, plant and equipment	(71,775,621)	(134,087,044)
Proceeds from sale of property, plant and equipment	39,001,085	-
Purchase of additional shares in a subsidiary from NCI	(880,917)	-
Repurchase of a subsidiary's treasury shares	(247,728)	-
Net cash used in investing activities	(33,903,181)	(132,962,012)
Cash flows from financing activities:		
Net proceeds from issuance of ordinary shares	728,313	6,836,498
Dividends paid	(866,621)	(745,618)
Repurchase of treasury shares	(467,835)	(214,498)
Proceeds from loans and borrowings	85,140,754	140,263,472
Repayment of loans and borrowings	(27,581,259)	(23,882,635)
Capital element of finance lease repayments	(46,850,992)	(4,173,733)
Net cash from financing activities	10,102,360	118,083,486
Effects of exchange rates on cash and cash equivalents	2,343	374
Net increase in cash and cash equivalents	3,771,495	10,528,774
Cash and cash equivalents at beginning of financial year	19,623,244	9,094,470
Cash and cash equivalents at end of financial year	23,394,739	19,623,244

AVATION PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

Note A – Disposal of a subsidiary, Capital Lease Australian Portfolio One Pty. Ltd.:

The aggregate cash inflows arising from the disposal of Capital Lease Australian Portfolio One Pty. Ltd. during the previous year were:

	US\$
Cash	199,839
Trade and other receivables	1,864,684
Property, plant and equipment	10,695,308
Trade and other payables	(4,004,378)
Borrowings	(3,735,866)
Provisions	(2,552,604)
Income tax payable	(514,547)
Identifiable net assets disposed	<u>1,952,436</u>
Loss on disposal	<u>(627,565)</u>
Cash proceeds from disposal	1,324,871
Less: cash and cash equivalents in subsidiary disposed	<u>(199,839)</u>
Net cash inflow on disposal, received during the year ended 30 June 2013	<u><u>1,125,032</u></u>

AVATION PLC

COMPANY STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	2014 US\$	2013 US\$
Cash flows from operating activities:		
Profit before taxation	1,378,297	2,393,473
Adjustments for:		
Dividend income	(1,500,000)	-
Depreciation	1,044,691	444,025
Interest income	(610,928)	(24,793)
Interest expense	825,661	339,434
Operating cash flows before working capital changes	<u>1,137,721</u>	<u>3,152,139</u>
Movement in working capital:		
Trade and other receivables	(13,477,949)	(9,566,963)
Trade and other payables	14,599,473	1,965,622
Cash from (used in) operations	<u>2,259,245</u>	<u>(4,449,202)</u>
Interest received	12,184	24,793
Interest paid	(796,209)	(329,571)
Net cash used in operating activities	<u>1,475,220</u>	<u>(4,753,980)</u>
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment	-	6,978,357
Purchase of property, plant and equipment	(4,210)	(2,862,769)
Investment in subsidiaries	(880,997)	(162)
Net cash (used in) from investing activities	<u>(885,207)</u>	<u>4,115,426</u>
Cash flows from financing activities:		
Net proceeds from issuance of ordinary shares	728,313	6,836,498
Dividends paid	(866,621)	(745,618)
Repurchase of treasury shares	(467,835)	(214,498)
Proceeds from loans and borrowings	12,888,179	-
Repayments of loans and borrowings	(833,370)	-
Capital element of finance lease repayments	(13,470,218)	(3,013,811)
Net cash from financing activities	<u>(2,021,552)</u>	<u>2,862,571</u>
Net (decrease) increase in cash and cash equivalents	<u>(1,431,539)</u>	<u>2,224,017</u>
Cash and cash equivalents at beginning of financial year	<u>3,406,322</u>	<u>1,182,305</u>
Cash and cash equivalents at end of financial year	<u>1,974,783</u>	<u>3,406,322</u>

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 GENERAL

Avation PLC is a public limited company incorporated in England and Wales under the Companies Act 2006 (Registration Number 05872328) and is listed as a Standard Listing on the London Stock Exchange. The address of the registered office is given on page 4.

As disclosed in the Report of the Directors, The principal activities of the Group is leasing of aircraft. Details of activities carried out by subsidiary companies is set out in Note 22 to these financial statements.

2 STATEMENT OF COMPLIANCE

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **BASIS OF PREPARATION** – The financial statements have been prepared in accordance with IFRS including standards and interpretations issued by the International Accounting Standards Board ("IASB"), and have been prepared in accordance with the historical cost convention, as modified by the revaluation of aircraft.

The financial statements are presented in United States Dollars, rounded to the nearest Dollar. The year end exchange rate for Pounds Sterling to United States Dollars is 1.7048.

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

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (b) BASIS OF CONSOLIDATION - The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Whether or not the Group controls, an investee is re-assessed if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

In the Company's separate financial statements investments in subsidiaries are stated at cost less impairment.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (c) **BUSINESS COMBINATIONS** - Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts held by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

- (d) **GOODWILL**- Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (e) FAIR VALUE MEASUREMENT – The Group measures financial instruments, such as derivatives, and non-financial assets such as aircraft, at fair values at each statement of reporting date. The fair values of debt instruments are not considered to be materially different from their amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

In the case of aircraft, unless otherwise disclosed, the assets are valued using lease encumbered value ("LEV"). Under such a valuation, which reflects highest and best use given the fact that the aircraft are held for use in a leasing business, the income streams associated with the lease and the expected future market value of the aircraft at the end of the lease are discounted to current values. The valuers prepare their valuation report based on the market for second hand aircraft, which is active, known and measurable.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as aircraft and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

External valuers are involved for valuation of significant assets, such as aircraft and AFS financial assets, and significant liabilities, such as contingent consideration.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents so far as possible

The management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

- (f) INVENTORIES – Inventories of consumable spare parts are stated at the lower of cost or market value determined on a portfolio basis.
- (g) PROPERTY, PLANT AND EQUIPMENT – All items of property, plant and equipment are initially recorded at cost. Such cost include the cost of replacing part of the property. The cost of an item of property, plant and equipment is recognised as an asset if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, the aircraft are stated in the statement of financial position at their fair value. All items of property plant and equipment other than aircraft are measured at cost less any accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. However, these aircraft have been reviewed for impairment.

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

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Jets	-	30 years from date of manufacture
Turbo props	-	30 years from date of manufacture
Furniture and equipment	-	3 years

The residual values, useful lives and depreciation methods are revised and adjusted if appropriate, at each reporting date. Residual value of aircraft are based on their estimated scrap value.

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

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

- (h) **IMPAIRMENT OF NON-FINANCIAL ASSETS** - The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such costs can be identified, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

Impairment losses are recognised as an immediate expense. However, the impairment loss shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus

- (i) **JOINTLY CONTROLLED ASSETS** – A jointly controlled asset involves joint control and ownership by the Group and other venturers of assets contributed to or acquired. The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or used of its share of the joint venture's output, together with its share of the expense incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (j) PROVISIONS - Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. In respect of maintenance rent, a corresponding provision is made in accordance with the expected maintenance costs that will be drawn in accordance with the lease conditions and lease term.
- (k) SHARE-BASED PAYMENTS – The cost of share based payment arrangements whereby employees receive remuneration in the form of warrants, is recognised as an employee benefit expense in profit or loss. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at date of grant. The assumption underlying the number of warrants expected to vest are subsequently adjusted for the effects of non market-based vesting conditions prevailing at the reporting date. Fair value is measured by the use of the Black-Scholes method and is based on a reasonable expectation of the extent to which performance criteria will be met.
- (l) LEASES – The Group leases aircraft to airlines under operating leases. Leases of aircraft where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in the profit or loss on a straight-line basis over the lease term.

The Group leases aircraft for use in the business. Where the Group bears substantially all the risk and rewards of ownership of the item, the lease is classified as a finance lease and the item is capitalised within the appropriate class of property, plant and equipment at the lower of the fair value of the leased item and the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to obtain a constant rate on the finance balance outstanding. The outstanding capital element of the lease payments are included within current and long-term payables as appropriate; the interest element of the lease payments is charged to profit or loss over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

(ii) Maintenance rental income recognised in the profit or loss is based on the number of flight hours and cycles the Aircraft are operated during the term of the lease. Maintenance rents are set at levels which are designed to equal or exceed expected expense.

Where a maintenance reserve claim against a component in excess of the component's maintenance reserve balance is accepted by the company as being a payment of the maintenance rent in advance for that component, that excess is also recognised as maintenance rental income.

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

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

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

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

(n) BORROWING COSTS - Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) CONTINGENCIES – A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

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

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

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

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

With effect from 1 April 2011 the Company migrated its business to become Singapore resident for tax purposes.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (q) FOREIGN CURRENCIES - The Group's consolidated financial statements and Company financial statements are presented in United States dollars, which is the presentational currency. The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency) and United States Dollars is the functional currency of the each of the Group entity, including the parent company.

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

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

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

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (r) FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.
- (i) Trade and other receivables – Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.
 - (ii) Cash and cash equivalents - Cash and cash equivalents comprise cash at bank and on hand and call deposits which are subject to an insignificant risk of changes in value.
 - (iii) Financial liabilities and equity - Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.
 - (iv) Borrowings - Interest-bearing loans from banks and financial institutions are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above). Insurance premiums paid to export credit agencies independent of the lending bank or financial institution are not considered to constitute transaction costs and are accounted for separately.
 - (v) Trade and other payables - Trade payables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.
 - (vi) Equity instruments - Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- (s) IMPAIRMENT OF FINANCIAL ASSETS - The Group assesses at each end of the reporting date whether there is any objective evidence that a financial asset is impaired.

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

- (t) SEGMENTAL REPORTING - Operating segments are reported in a manner consistent with the internal reporting provided to the executive chairman who is responsible for allocating resources and assessing performance of operating segments.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions concerning the future are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. They are assessed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of property, plant and equipment – aircraft

The Group periodically evaluates its aircraft for impairment. Factors that would indicate potential impairment would include, but not be limited to, significant decreases in the market value of aircraft or, a significant change in an aircraft's physical condition or cash-flow associated with the use of the aircraft. The Group continues to record positive cash flows from its aircraft. The Group has identified impairment related to its existing aircraft fleet during the financial year.

(ii) Revaluation of property, plant and equipment – aircraft

The Group periodically revalues its aircraft using lease encumbered value ("LEV"). Under such a valuation, which reflects highest and best use given the fact that the aircraft are held for use in a leasing business, the income streams associated with the lease and the expected future market value of the aircraft at the end of the lease are discounted to current values. Critical assumptions made in determining LEV are the discount rate applied to cashflows associated with the lease and the expected future value of aircraft at the end of the lease.

(iii) Maintenance reserve claims and rent

The Group provides for maintenance reserve claims for certain aircraft. Management has relied on industry experience and information from aircraft manufacturers and airlines to estimate the provision for the maintenance reserve claims. These estimates can be subject to revisions depending on a number of factors such as the timing of the planned maintenance, the utilisation of the aircraft, changes to the manufacturer's maintenance program or a change in the estimated costs. Management evaluates its estimates and assumptions and, when warranted, adjusts these assumptions which may impact the maintenance reserve claim expense in the profit or loss.

As disclosed in note 3(m)(ii) maintenance rental income recognised in the profit or loss is based on the number of flight hours and cycles the Aircraft are operated during the term of the lease. The Group considers that the lessee acts as agent for the Group in performing the repair and therefore that it is appropriate to recognise income from maintenance rent as revenue and the cost of performing those repairs in expenses.

There were no maintenance reserves at the year end.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(iv) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar risk characteristics.

(v) Withholding taxes

During the current financial period, the Group's Singapore subsidiaries have obtained interest bearing loans from foreign lenders. Under the Singapore Income Tax Act, the interest which is borne by the Group will be deemed to be derived from Singapore and the Group is required to withhold tax on the interest payables to the foreign lenders.

Management is in the process of applying with the Ministry of Finance ("MOF") for the withholding tax exemption under Section 13 of the Income Tax Act. Based on the management's judgment, the Group is, more likely than not, to obtain the waiver from MOF for the withholding tax on its interest payments made to the lenders. Accordingly, the Group has not provided for the withholding tax payable as at the end of the reporting period.

Had the Group provided for the withholding tax payable as at the end of the reporting period, profit for the period would be reduced by approximately US\$223,000.

(vi) Income taxes

a) During the current financial period, Avation Group (S) Pte Ltd ("AGS") and its subsidiaries has been awarded a 5-year Aircraft Leasing Scheme ("ALS") incentive from the Singapore Economic Development Board, where income from the leasing of aircraft and aircraft engines and qualifying activities will be taxed at a concessionary rate of 10%. The effective date is 17 April 2014. Accordingly, qualifying income derived from the period 17 April 2014 to 16 April 2019 will be taxed at the 10% concessionary rate subject to meeting the terms and conditions of the incentive. The Group is currently in the process of reorganising and planned to make Avation Eastern Fleet Pte Ltd and Avation Eastern Fleet IV Pte. Ltd. subsidiaries of AGS to enjoy the ALS. The directors are of the view that the Group's reorganisation will be completed successfully and the Avation Eastern Fleet Pte Ltd and Avation Eastern Fleet IV Pte. Ltd will qualify for the ALS. Accordingly, in determining the carrying amount of the deferred tax liability as at the end of the reporting period, these 2 subsidiaries have applied the concessionary tax rate of 10%. Had these 2 subsidiaries applied the prevailing Singapore corporate tax rate of 17%, the profit for the year would have decreased by approximately US\$1,056,000.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

- b) Significant judgment is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which the determination is made.

- (vii) Consolidation of special purpose entity ("SPE") – Avation Airframe Holdings Pte. Ltd.

The directors have considered whether this company, which was set up during the previous year and which forms part of a financing structure to facilitate the acquisition of certain new aircraft, should be consolidated as a subsidiary undertaking. Although the ultimate shareholder of the SPE is a trust, the directors consider that Avation PLC has the power to control the day to day activities of the SPE and indeed does so in practice through one of its wholly owned subsidiary undertakings. Furthermore, Avation PLC is entitled to the benefits and exposed to the risks of the activities of the SPE, which are entirely consistent with the ongoing major operations of the Avation Group, and are conducted on behalf of the Group according to the Group's specific business needs. Accordingly the directors consider that the SPE is controlled by the Group and have consolidated it as a subsidiary in these financial statements.

The Group would cease to control the SPE in the event of a "Relevant Event" as defined in the financing agreement, for example, a delay in payment of interest. Were this to occur consolidation would cease at that point although the Group has no intention, or anticipation, that any such event will occur.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

5. NEW STANDARDS AND INTERPRETATIONS NOT APPLIED AND STANDARDS IN EFFECT IN 2014

a) New standards and interpretations not applied

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

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

International Accounting Standards (IAS/IFRS)	Effective Date (accounting periods commencing after)
IFRS 9 Financial Instruments	1 January 2018
IFRS 10 Consolidated Financial Statements	1 January 2014
IFRS 12 Disclosure of Interest with Other Entities	1 January 2014
IAS 27 Separate Financial Statements	1 January 2014
Amendments to IAS32 Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRIC Interpretation 21 Levies	1 January 2014
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

b) Standards in effect in 2014

The Group has adopted all the new standards that has come into effect during the financial year.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

6. FAIR VALUE MEASUREMENT

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidation sale.

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings are a reasonable approximation of fair value either due to their short-term nature or because the interest rate charged closely approximates market interest rates or that the financial instruments have been discounted to their fair value at a current pre-tax interest rate.

Non-financial assets measured at fair value:

Fair value measurement using:					
	Date of valuation	Total	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
		US\$	US\$	US\$	US\$
Group 2014					
Aircraft	30 June 2014	367,264,931	–	–	367,264,931
2013					
Aircraft	30 June 2013	347,192,680	–	–	347,192,680
Company 2014					
Aircraft	30 June 2014	19,127,923	–	–	19,127,923
2013					
Aircraft	30 June 2013	20,169,501	–	–	20,169,501

Refer to Note 23 for the details on the valuation technique and significant inputs into valuation used.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

6. FAIR VALUE MEASUREMENT (CONT'D)

Classification of financial instruments

Set out below is a comparison by category of carrying amounts of all the Group and Company's financial instruments that are carried in the financial statements which are considered to equate to fair value.

GROUP	Loans and receivables	Financial liabilities measured at amortised cost	Total
2014	US\$	US\$	US\$
Assets			
Cash and cash equivalents	23,394,739	–	23,394,739
Trade and other receivables	13,127,397	–	13,127,397
	<hr/> 36,522,136	–	<hr/> 36,522,136
Liabilities			
Trade and other payables	–	17,299,980	17,299,980
Loans and borrowings	–	274,658,086	274,658,086
	–	<hr/> 291,958,066	<hr/> 291,958,066
2013			
Assets			
Cash and cash equivalents	19,623,244	–	19,623,244
Trade and other receivables	14,349,584	–	14,349,584
	<hr/> 33,972,828	–	<hr/> 33,972,828
Liabilities			
Trade and other payables	–	17,750,571	17,750,571
Loans and borrowings	–	263,449,583	263,449,583
	–	<hr/> 281,200,154	<hr/> 281,200,154

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

6. FAIR VALUE MEASUREMENT (CONT'D)

COMPANY	Loans and receivables US\$	Financial liabilities measured at amortised cost US\$	Total US\$
2014			
Assets			
Cash and cash equivalents	1,974,783	–	1,974,783
Trade and other receivables	42,784,692	–	42,784,692
	<u>44,759,475</u>	<u>–</u>	<u>44,759,475</u>
Liabilities			
Trade and other payables	–	19,337,306	19,337,306
Loans and borrowings	–	12,054,809	12,054,809
	<u>–</u>	<u>31,392,115</u>	<u>31,392,115</u>
2013			
Assets			
Cash and cash equivalents	3,406,322	–	3,406,322
Trade and other receivables	28,301,227	–	28,301,227
	<u>31,707,549</u>	<u>–</u>	<u>31,707,549</u>
Liabilities			
Trade and other payables	–	5,799,006	5,799,006
Loans and borrowings	–	13,470,218	13,470,218
	<u>–</u>	<u>19,269,224</u>	<u>19,269,224</u>

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Airline Industry Risks

The Group faces risks specific to the aviation sector, war, terrorism, and equipment failure. These exposures are managed through the requirement for the airlines that lease the Group's assets to maintain insurance, adequate maintenance policies and/or contribute to a maintenance reserve for the major maintenance on each aircraft.

(ii) Credit risk

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

The Group has adopted prudent credit policy in extending credit terms to customers and in monitoring its credit terms.

The credit policy provides guidelines on extending credit terms to customers, including monitoring the process. This includes assessing customers' credit standing and periodic review of their financial status to determine the credit limits to be granted. The Company performs ongoing credit evaluation of its customers' financial condition and generally, requires collateral from its customers.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial period in relation to each class of financial assets is the carrying amount of those assets as stated in the statement of financial position. The Group's concentration of customers is disclosed in note 34. The risk is mitigated by the requirement that customers pay a 3 month deposit by way of cash or letter of credit and the Group is entitled to recover the aircraft and enter into a new lease with a third party if the customer defaults.

The maximum exposure to credit risk for trade receivables at the reporting date by geographical area is:

	Group	
	2014	2013
	US\$	US\$
Australia	1,311,548	3,945,275
Others	222,810	588,975
	1,534,358	4,534,250

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(a) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due or impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group's trade receivable not past due include receivables amounting to US\$1,320,842 (2013: US\$3,258,279).

(b) Financial assets that are past due and/or impaired

There is no class of financial assets that are past due and /or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2014	2013
	US\$	US\$
Past due < 3 months	206	1,244,907
Past due 3 to 6 months	42,921	31,064
Past due over 6 months	170,389	–
	<hr/>	<hr/>
	213,516	1,275,971
	<hr/>	<hr/>

(iii) Interest rate risk

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

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

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

(iv) Foreign currency risk

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

The Group does utilise forward foreign currency contracts to hedge its exposure to specific currency risks.

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

The Group's foreign currency exposure is as follows:

Group	Pounds Sterling US\$	Australian Dollars US\$	Euro US\$	Singapore Dollars US\$	Total US\$
2014					
Cash and cash equivalents	360,990	5,562	14,211	251,272	632,035
Trade and other receivables	–	1,416	7,357	36,628	45,401
Other financial liabilities	(135,884)	(6,256)	(81,382)	(91,604)	(315,126)
Currency exposure	<u>225,106</u>	<u>722</u>	<u>(59,814)</u>	<u>196,296</u>	<u>362,310</u>

2013

Cash and cash equivalents	2,898,583	19,708	10,992	141,414	3,070,697
Trade and other receivables	35,027	18,630	6,735	182,795	243,187
Other financial liabilities	(45,263)	(47,768)	(9,322)	(82,944)	(185,297)
Currency exposure	<u>2,888,347</u>	<u>(9,430)</u>	<u>8,405</u>	<u>241,265</u>	<u>3,128,587</u>

Company

	Pounds Sterling US\$	Australian Dollars US\$	Euro US\$	Singapore Dollars US\$	Total US\$
2014					
Cash and cash equivalents	262,455	–	–	146,576	409,031
Trade and other receivables	–	1,416	7,357	36,628	45,401
Other financial liabilities	(91,379)	(6,256)	(75,979)	(16,125)	(189,739)
Currency exposure	<u>171,076</u>	<u>(4,840)</u>	<u>(68,622)</u>	<u>167,079</u>	<u>264,693</u>

2013

Cash and cash equivalents	2,788,225	–	–	1,520	2,789,745
Trade and other receivables	838,120	4,573	88,767	60,963	992,423
Other financial liabilities	(109,159)	(25,750)	(43,125)	(96,689)	(274,723)
Currency exposure	<u>3,517,186</u>	<u>(21,177)</u>	<u>45,642</u>	<u>(34,206)</u>	<u>3,507,445</u>

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

If the foreign currencies changes against the United States Dollars by 10% (2013: 10%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

<u>Group</u>	Increase/(Decrease)		Increase/(Decrease)	
	2014	2014	2013	2013
	Profit after tax	Equity	Profit after tax	Equity
	US\$	US\$	US\$	US\$
GBP against US\$				
- strengthen	22,511	22,511	288,835	288,835
- weakened	(22,511)	(22,511)	(288,835)	(288,835)
AUD against US\$				
- strengthen	72	72	(943)	(943)
- weakened	(72)	(72)	943	943
Euro against US\$				
- strengthen	(5,981)	(5,981)	840	840
- weakened	5,981	5,981	(840)	(840)
SGD against US\$				
- strengthen	19,630	19,630	24,126	24,126
- weakened	(19,630)	(19,630)	(24,126)	(24,126)

<u>Company</u>	Increase/(Decrease)		Increase/(Decrease)	
	2014	2014	2013	2013
	Profit after tax	Equity	Profit after tax	Equity
	US\$	US\$	US\$	US\$
GBP against US\$				
- strengthen	17,108	17,108	351,719	351,719
- weakened	(17,108)	(17,108)	(351,719)	(351,719)
AUD against US\$				
- strengthen	(484)	(484)	(2,118)	(2,118)
- weakened	484	484	2,118	2,118
Euro against US\$				
- strengthen	(6,862)	(6,862)	4,564	4,564
- weakened	6,862	6,862	(4,564)	(4,564)
SGD against US\$				
- strengthen	16,708	16,708	(3,421)	(3,421)
- weakened	(16,708)	(16,708)	3,421	3,421

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(v) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Short-term funding is obtained from loan facilities.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at the end of the reporting period based on contractual undiscounted repayment obligations:

	One year or less	One to five years	Over five years	Total
Group	US\$	US\$	US\$	US\$
2014				
Financial assets				
Cash and cash equivalents	23,394,739	–	–	23,394,739
Trade and other receivables	2,804,086	11,268,750	–	14,072,836
Total undiscounted financial assets	26,198,825	11,268,750	–	37,467,575
Financial liabilities				
Trade and other payables	12,641,301	1,548,440	8,548,516	22,738,257
Loans and borrowings	68,243,926	148,198,989	113,113,194	329,556,109
Total undiscounted financial liabilities	80,885,227	149,747,429	121,661,710	352,294,366
Total net undiscounted financial liabilities	(54,686,402)	(138,478,679)	(121,661,710)	(314,826,791)
2013				
Financial assets				
Cash and cash equivalents	19,623,244	–	–	19,623,244
Trade and other receivables	6,337,909	9,300,261	–	15,638,170
Total undiscounted financial assets	25,961,153	9,300,261	–	35,261,414
Financial liabilities				
Trade and other payables	12,088,802	3,550,487	7,146,468	22,785,757
Loans and borrowings	37,226,802	153,295,495	119,298,930	309,821,227
Total undiscounted financial liabilities	49,315,604	156,845,982	126,445,398	332,606,984
Total net undiscounted financial liabilities	(23,354,451)	(147,545,721)	(126,445,398)	(297,345,570)

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Company	One year or less US\$	One to five years US\$	Over five years US\$	Total US\$
2014				
<i>Financial assets</i>				
Cash and cash equivalents	1,974,783	–	–	1,974,783
Trade and other receivables	31,578,274	11,268,750	–	42,847,024
Total undiscounted financial assets	33,553,057	11,268,750	–	44,821,807
<i>Financial liabilities</i>				
Trade and other payables	18,492,456	978,440	–	19,470,896
Loans and borrowings	1,992,615	11,645,734	–	13,638,349
Total undiscounted financial liabilities	20,485,071	12,624,174	–	33,109,245
Total net undiscounted financial liabilities	13,067,986	(1,355,424)	–	11,712,562
2013				
<i>Financial assets</i>				
Cash and cash equivalents	3,406,322	–	–	3,406,322
Trade and other receivables	19,096,712	9,264,244	–	28,360,956
Total undiscounted financial assets	22,503,034	9,264,244	–	31,767,278
<i>Financial liabilities</i>				
Trade and other payables	3,840,760	2,071,487	–	5,912,247
Loans and borrowings	1,992,615	13,638,357	–	15,630,972
Total undiscounted financial liabilities	5,833,375	15,709,844	–	21,543,219
Total net undiscounted financial liabilities	16,669,659	(6,445,600)	–	10,224,059

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

7 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(vi) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain a suitable capital structure so as to fund growth and maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on a gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents.

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
<i>Current</i>				
Net debt	272,093,631	265,003,751	29,530,573	15,976,143
Total equity	111,766,984	98,236,359	39,568,496	37,429,613
Total capital	382,860,615	363,240,110	69,099,069	53,405,756
Gearing ratio	71%	73%	43%	30%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 30 June 2014 and 30 June 2013.

(vii) Fair value of financial assets and financial liabilities

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

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

8 RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties.

(a) Compensation of directors and key management personnel

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

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Key management of the Group				
- Directors' fee paid to directors of the Company	21,815	81,983	21,815	81,983
- Directors' fee paid to directors of subsidiaries	537,192	471,045	-	-
- Superannuation paid for a director of a subsidiary	18,430	20,600	-	-
- Salaries paid to directors of the Company	652,844	306,433	332,658	41,643

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

	Group	
	2014	2013
	US\$	US\$
Aggregate emoluments	638,416	266,844

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

8 RELATED PARTY TRANSACTIONS (CONT'D)

(b) Significant related party transactions:

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Entities controlled by key management personnel (including directors):				
Sales of goods	–	412,927	–	–
Maintenance rent	–	1,993,142	–	–
Rental income	–	23,770,672	–	314,176
Service fee income	–	17,424	–	–
Interest income	8,789	15,836	8,789	14,838
Consulting fee paid	(177,728)	(309,058)	(177,728)	(231,120)
Expenses rebilled	–	(147,516)	–	(35,365)
Service fee paid	(10,790)	(7,048)	(10,790)	(7,048)
Interest expense paid	(810,889)	(230,230)	(200,000)	(199,939)
<hr/>				
	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Ex-director of a subsidiary:				
Interest expense paid	(19,854)	(58,094)	–	–
<hr/>				

(c) Significant transactions between the Company and its subsidiaries:

	Company	
	2014	2013
	US\$	US\$
Commission income	1,036,140	–
Dividend income	1,500,000	–
Interest income	598,745	9,955
Management and service fee income	–	655,720
Rental income	2,088,000	1,674,356
Sale of aircraft	–	6,978,357
Service fee expense	–	(30,913)
<hr/>		

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

9 REVENUE

	Group	
	2014	2013
	US\$	US\$
Rental income	49,340,808	39,513,196
Maintenance rent revenue	2,914,401	1,993,142
Management and service income	–	381,409
Sales of finished goods	–	852,244
	<hr/>	<hr/>
	52,255,209	42,739,991

There is no rental income that is contingent.

10 OTHER INCOME

	Group	
	2014	2013
	US\$	US\$
Interest income	23,378	28,727
Foreign currency exchange adjustment gain	202,179	34,079
Software licence repurchase by aircraft manufacturer	–	1,075,420
Finance income from the discounting of non-current deposits to present value	273,113	582,844
Profit from sale of property, plant and equipment	3,322,468	–
Others	203,266	125,468
	<hr/>	<hr/>
	4,024,404	1,846,538

11 OTHER OPERATING EXPENSES

	Group	
	2014	2013
	US\$	US\$
(Reversal) Claim on maintenance reserve expense	(114,927)	1,860,732
Depreciation of property, plant and equipment	15,259,012	11,366,937
Impairment of property plant and equipment	713,250	8,945
	<hr/>	<hr/>
	15,857,335	13,236,614

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

12 ADMINISTRATIVE EXPENSE

	Note	Group	
		2014	2013
		US\$	US\$
Staff costs	14	2,152,992	1,226,241
Other administrative expenses		4,804,723	2,338,557
		<u>6,957,715</u>	<u>3,564,798</u>

13 FINANCE EXPENSE

		Group	
		2014	2013
		US\$	US\$
Interest expense on borrowings		15,569,879	11,517,628
Amortisation of loan insurance premium		1,078,239	904,658
Notional interest on deposit collected		257,883	570,267
		<u>16,906,001</u>	<u>12,992,553</u>

14 STAFF COSTS

		Group	
		2014	2013
		US\$	US\$
Directors' fee paid to directors of the Company		21,815	81,983
Directors' fee paid to directors of the subsidiaries		537,192	471,045
Salaries paid to directors of Company		652,844	306,433
Wages and salaries		922,711	346,180
Superannuation paid for a director of a subsidiary		18,430	20,600
		<u>2,152,992</u>	<u>1,226,241</u>

The average number of directors of the Company for the financial year is 3 (2013: 3). The average number of other employees for the financial year is 11 (2013: 4).

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

15 PROFIT BEFORE TAXATION

Profit before taxation for the year is stated after charging / (crediting) the following:

	2014	2013
	US\$	US\$
(Reversal)/Claim on maintenance reserve expense – Group	(114,927)	1,860,732
Depreciation of property, plant and equipment – Group	15,259,012	11,104,963
Foreign currency exchange adjustment gain – Group	202,179	34,079
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	32,147	41,844
Fees payable to the Company's auditor and their associates for other services to the Group		
- The audit of the Company's subsidiaries	53,101	48,691
Total audit fees	<u>85,248</u>	<u>90,535</u>
Auditors' remuneration for non-audit services:		
- Tax compliance services	6,499	10,651
- Tax advisory services	3,249	–
- Other services	5,399	–
	<u>15,147</u>	<u>10,651</u>

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

16 TAXATION

	Group	
	2014	2013
	US\$	US\$
Current tax expense		
- United Kingdom	2,549	42,657
- Overseas	1,281,678	1,405,792
(Over)/Under provision in prior years tax expense		
- United Kingdom	(228,875)	–
- Overseas	6,202	4,699
Deferred tax expense – United Kingdom	(201,827)	25,575
Deferred tax expense – overseas	1,435,765	524,903
Other tax – overseas – current	–	1,058
	<u>2,295,492</u>	<u>2,004,684</u>

The income tax differs from amount of income tax expense determined by applying the Singapore tax rate of 17% to profit before income tax as a result of the following differences:

	Group	
	2014	2013
	US\$	US\$
Profit before income tax	16,558,562	13,969,677
Tax calculated at tax rate of 17% (2013: 17%)	2,814,956	2,374,845
Effects of:		
(Over)/Under provision in prior years tax expense		
- United Kingdom	(228,875)	–
- Overseas	6,202	4,699
Non-deductible items	1,413,418	341,183
Income not subject to tax	(387,554)	(606,591)
Different tax rates of other countries	2,817	(136,756)
Effect of concessionary tax rate at 10%	(1,267,000)	–
Singapore statutory stepped tax exemption	(57,859)	–
Other tax – overseas – current	–	1,058
Others	(613)	26,246
Total income tax expense	<u>2,295,492</u>	<u>2,004,684</u>

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

17 EARNINGS PER SHARE

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

EPS is calculated by dividing the net profit attributable to members of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2014	2013
	US\$	US\$
Net profit attributable to equity holders of the Company	<u>13,312,153</u>	<u>10,515,901</u>
Weighted average number of ordinary shares	<u>48,583,353</u>	<u>45,236,493</u>
Basic earnings per share	<u>27.40 cents</u>	<u>23.25 cents</u>

Subsequent to the year end the number of ordinary shares in issue has increased to 52,877,666, of those 450,000 remain in treasury.

(b) Diluted earnings per share

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

For warrants, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share option less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. None of the warrants in existence are dilutive as their exercise price is greater than the weighted average share price. No adjustment is made to the net profit.

As detailed in note 31 there were 1,240,000 warrants exercisable at the reporting date which are potentially dilutive. No further potentially dilutive issues have occurred prior to the issue of the financial statements.

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

17 EARNINGS PER SHARE (CONT'D)

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

	Group	
	2014	2013
	US\$	US\$
Net profit attributable to equity holders of the Company	13,312,153	10,515,901
Weighted average number of ordinary shares	48,583,353	45,236,493
Adjustment for:		
- Warrants	-	-
Weighted average number of ordinary shares	<u>48,583,353</u>	<u>45,236,493</u>
Diluted earnings per share	<u>27.40 cents</u>	<u>23.25 cents</u>

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Cash at bank and on hand	19,626,881	19,623,244	1,974,783	3,406,322
Short term bank deposits	3,767,858	-	-	-
	<u>23,394,739</u>	<u>19,623,244</u>	<u>1,974,783</u>	<u>3,406,322</u>

The rate of interest for the cash on interest earning accounts is approximately 0.14% to 2.5% (2013: 1.0% to 4.5%) per annum. These approximate the weighted average effective interest rate.

Cash and cash equivalents denominated in foreign currencies are as follows:

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Pounds sterling	360,990	2,898,583	262,455	2,788,225
Australian dollars	5,562	19,708	-	-
Euro	14,211	10,992	-	-
Singapore dollars	<u>251,272</u>	<u>141,414</u>	<u>146,576</u>	<u>1,520</u>

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Current:				
Trade receivables	1,534,358	4,534,250	591,762	195,965
Trade receivables - subsidiaries	–	–	–	455,720
Non-trade receivables	120,144	99,743	44,094	35,343
Non-trade receivables - subsidiaries	–	–	30,277,045	18,036,838
Non-trade receivables – related parties	455	–	–	–
Interest bearing receivable - subsidiaries (a) & (b)	–	–	416,298	35,000
Interest receivable – subsidiaries	–	–	19,336	11,218
Interest bearing receivable – related party (c)	124,273	232,554	124,273	232,554
Interest receivable – related party	43,134	34,345	43,134	34,345
Deposits	36,283	–	–	–
Prepaid expense	945,439	1,288,586	62,332	59,729
Accrued income	–	148,431	–	–
	<u>2,804,086</u>	<u>6,337,909</u>	<u>31,578,274</u>	<u>19,096,712</u>
Non-current:				
Deposits for aircraft	11,268,750	9,300,261	11,268,750	9,264,244
	<u>11,268,750</u>	<u>9,300,261</u>	<u>11,268,750</u>	<u>9,264,244</u>

(a) Interest bearing receivable of US\$381,298 (2013: US\$Nil) due from a subsidiary. The receivable is unsecured, repayable upon demand. Interest is charged at 5.5% (2013 : Nil%) per annum.

(b) Interest bearing receivable of US\$35,000 (2013: US\$35,000) due from a subsidiary. The receivable is unsecured, repayable upon demand. Interest is charged at 1% (2013 : 1%) per annum.

(c) Interest bearing receivable of US\$ US\$124,273 (2013: US\$232,544) is due from an entity controlled by key management personnel. The receivable is unsecured, repayable upon demand. Interest is charged at 5% (2013: 5%) per annum.

The amounts due from subsidiaries and related parties are unsecured, interest-free and payable on demand unless otherwise stated.

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

19 TRADE AND OTHER RECEIVABLES (CONT'D)

The trade and other receivables denominated in foreign currencies are as follows:

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Pounds sterling	–	35,027	–	838,120
Australian dollars	1,416	18,630	–	4,573
Euro	7,357	6,735	5,342	88,767
Singapore dollars	36,628	182,795	–	60,963

20 PREPAYMENTS

Prepayments represent loan insurance premiums on amounts due to outside parties and are amortised over 10 years.

21 INVENTORIES

	Group	
	2014 US\$	2013 US\$
Finished goods, at cost	–	438

The cost of inventories recognised as an expense and included in the cost of sales amounts to US\$Nil (2013: US\$822,887).

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

22 INVESTMENT IN SUBSIDIARIES

	Company	
	2014	2013
	US\$	US\$
Unquoted equity shares, at cost	2,505,399	2,505,319
Quoted equity shares, at cost	4,463,240	2,734,373
	<u>6,968,639</u>	<u>5,239,692</u>
Quoted equity shares, at market value	<u>18,060,452</u>	<u>15,828,404</u>

In the opinion of management, no impairment in the value of the investment in subsidiaries is necessary.

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2014	2013
Held directly by the Company:				
Avation.net Inc (a)	United States of America	Procurement	99.96	99.96
Capital Lease Aviation PLC (b)	United Kingdom	Leasing of aircraft	68.85	62.07
F100 Pty Ltd (c)	Australia	Leasing of aircraft	100.00	100.00
Avation Eastern Fleet Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	100.00
Avation Eastern Fleet (II) Pte. Ltd. (a)	Singapore	Leasing of aircraft	-	100.00
Avation Airframe Holding Pte. Ltd. (e)	Singapore	Leasing of aircraft	-	-
Avation Eastern Fleet (III) Pte. Ltd. (e)	Singapore	Leasing of aircraft	-	100.00
Avation Eastern Fleet (IV) Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	100.00
MSN1922 Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	100.00
MSN429 Leaseco Limited (b)	United Kingdom	Leasing of aircraft	100.00	100.00

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

22 INVESTMENT IN SUBSIDIARIES (CONT'D)

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2014	2013
F100 Fleet Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	100.00
AVAP Aircraft Trading Pte. Ltd.(e)	Singapore	Procurement	100.00	-
Avation Group (S) Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	-
Held by Capital Lease Aviation PLC: Capital Lease Malta Ltd (d)	Malta	Leasing of aircraft	68.85	62.07
Capital Lease (S) Pte Ltd (a)	Singapore	Leasing of aircraft	68.85	62.07
MSN 1607 Pte. Ltd. (e)	Singapore	Leasing of aircraft	68.85	62.07
Held by Avation Eastern Fleet Pte. Ltd.: Airframe Leasing (S) Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	100.00
Held by Avation Eastern Fleet II Pte. Ltd.: Airframe Leasing (S) II Pte. Ltd. (a)	Singapore	Leasing of aircraft	100.00	100.00
Held by Avation Eastern Fleet III Pte. Ltd.: Airframe Leasing (S) III Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	100.00
Held by Avation Eastern Fleet IV Pte. Ltd.: Airframe Leasing (S) IV Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	100.00
Held by MSN 429 Leaseco Limited: MSN 429 Limited (b)	United Kingdom	Leasing of aircraft	100.00	100.00
Held by F100 Fleet Pte. Ltd.: F100 Leasing Pte. Ltd.(e)	Singapore	Leasing of aircraft	100.00	100.00

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
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22 INVESTMENT IN SUBSIDIARIES (CONT'D)

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2014	2013
Subsidiaries held by Avation Group (S) Pte. Ltd.:				
Avation Eastern Fleet II Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	-
Avation Eastern Fleet III Pte. Ltd. (e)	Singapore	Leasing of aircraft	100.00	-
Avation Pacific Leasing Pte. Ltd.(e)	Singapore	Leasing of aircraft	100.00	-

- (a) Audited by Jasmine Chua and Associates, Singapore
- (b) Audited by Kingston Smith LLP, London, United Kingdom
- (c) Audited by Moore Stephens, Perth, Australia
- (d) Audited by Nexia BT, Malta
- (e) Audited by Ernst & Young LLP, Singapore

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
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23 PROPERTY, PLANT AND EQUIPMENT

Group 2014	Furniture and equipment	Jets US\$	Turbo Props US\$	Total US\$
Cost or valuation:				
At beginning of year	20,120	177,595,796	217,015,882	394,631,798
Additions	113,031		71,662,590	71,775,621
Disposal	–		(35,678,617)	(35,678,617)
At end of year	133,151	177,595,796	252,999,855	430,728,802
Representing:				
At cost	133,151	–	–	133,151
At valuation	–	177,595,796	252,999,855	430,595,651
	133,151	177,595,796	252,999,855	430,728,802
Accumulated depreciation and impairment:				
At beginning of year	12,411	39,646,096	7,772,902	47,431,409
Depreciation charge	60,540	7,769,869	7,428,603	15,259,012
Impairment	–	713,250	–	713,250
At end of year	72,951	48,129,215	15,201,505	63,403,671
Net carrying amount:				
At beginning of year	7,709	137,949,700	209,242,980	347,200,389
At end of year	60,200	129,466,581	237,798,350	367,325,131

No upwards change in the value of the aircraft was required to be recognised during the period as there was no material difference between the lease encumbered value as determined by an independent valuer and net book value at the year end.

Included in Jets is an aircraft in which the group holds 39.22% ownership and is accounted for in accordance with the group's policy for jointly controlled assets.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

23 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture and equipment	Jets US\$	Turbo Props US\$	Total US\$
Group 2013				
Cost or valuation:				
At beginning of year	14,922	134,960,092	108,274,256	243,249,270
Additions	5,198	39,040,220	108,741,626	147,787,044
Revaluation surplus	–	3,595,484	–	3,595,484
At end of year	20,120	177,595,796	217,015,882	394,631,798
Representing:				
At cost	20,120	–	217,015,882	217,036,002
At valuation	–	177,595,796	–	177,595,796
	20,120	177,595,796	217,015,882	394,631,798
Accumulated depreciation and impairment:				
At beginning of year	7,529	27,045,435	2,334,003	29,386,967
Depreciation for the year	4,882	5,923,156	5,438,899	11,366,937
Increase of revaluation	–	(26,646)	–	(26,646)
Impairment loss	–	6,704,151	–	6,704,151
At end of year	12,411	39,646,096	7,772,902	47,431,409
Net carrying amount:				
At beginning of year	7,393	107,914,657	105,940,253	213,862,303
At end of year	7,709	137,949,700	209,242,980	347,200,389

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

23 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture and equipment	Jets	Total
	US\$	US\$	US\$
Company 2014			
Cost or valuation:			
At beginning of year	3,839	20,452,194	20,456,033
Additions	4,210	–	4,210
At end of year	8,049	20,452,194	20,460,243
Representing:			
At cost	8,049	–	8,049
At valuation	–	20,452,194	20,452,194
	8,049	20,452,194	20,460,243
Accumulated depreciation:			
At beginning of year	1,699	282,693	284,392
Depreciation charge	2,513	1,042,178	1,044,691
At end of year	4,212	1,324,871	1,329,083
Net carrying amount:			
At beginning of year	2,140	20,169,501	20,171,641
At end of year	3,837	19,127,323	19,131,160

No change in the value of the company's aircraft was required to be recognised during the period as there was no material difference between the lease encumbered value as determined by an independent valuer and net book value at the year end.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

23 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture and equipment US\$	Jets US\$	Total US\$
Company <u>2013</u>			
Cost or valuation:			
At beginning of year	1,886	9,077,560	9,079,446
Additions	1,953	16,560,816	16,562,769
Disposal	–	(7,999,120)	(7,999,120)
Revaluation surplus	–	2,812,938	2,812,938
)	
At end of year	3,839	20,452,194	20,456,033
Representing:			
At cost	3,839	–	3,839
At valuation	–	20,452,194	20,452,194
	3,839	20,452,194	20,456,033
Accumulated depreciation:			
At beginning of year	419	887,357	887,776
Depreciation charge	1,280	442,745	444,025
Disposal	–	(1,020,763)	(1,020,763)
Increase in revaluation surplus	–	(26,646)	(26,646)
At end of year	1,699	282,693	284,392
Net carrying amount:			
At beginning of year	1,467	8,190,203	8,191,670
At end of year	2,140	20,169,501	20,171,641

Assets held on trust

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

23 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Assets held under finance lease

During the financial year, the Group acquired aircraft with an aggregated cost of US\$Nil (2013: US\$16,560,816) and the Company acquired aircraft with an aggregated cost of US\$Nil (2013: US\$16,560,816) by means of finance leases respectively.

The carrying amount of aircraft held under finance leases at the end of the reporting period was US\$Nil (2013: US\$54,768,779).

Assets pledged as security

In addition to assets held under finance leases, the Group's aircraft with carrying values of US\$359,577,400 (2013: US\$261,655,019) are mortgaged to secure the Group's borrowings (Note 27).

Valuation

The Group's and Company's aircraft were valued in June 2014 by independent valuers, on lease encumbered basis ("LEV"). LEV takes into account the current lease arrangements entered into in respect of the Group's aircraft, utilising specific lease income streams and estimated residual values at lease termination. These have been discounted to present value using discounted rate of 6.5% per annum.

For one of the Group's aircraft, the lease encumbered value was not considered a true reflection of the aircraft's fair value given the proximity to the end of the lease and the expected outcome. Under the terms of the lease, the Group is entitled to compensation from the lessee at the end of the lease based on the condition of the aircraft at that time. This compensation is material to the fair value of the asset but is not taken into account in determining lease encumbered value. The Group has engaged independent experts to assess best estimate of the lease compensation sum together with the recoverable value of the aircraft has been used to determine fair value. An impairment of US\$713,250 has been made during the financial year.

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

Group	2014		2013	
	Jets	Turbo-props	Jets	Turbo-props
	US\$	US\$	US\$	US\$
Cost	157,190,077	252,999,855	157,188,424	217,015,882
Accumulated depreciation and impairment	(35,214,829)	(15,201,505)	(27,427,748)	(7,772,901)
Net book value	121,975,248	237,798,350	129,760,676	209,242,981

Company	2014		2013	
	Jets	Turbo-props	Jets	Turbo-props
	US\$	US\$	US\$	US\$
Cost	17,639,256	-	17,639,256	-
Accumulated depreciation and impairment	(1,152,667)	-	(309,339)	-
Net book value	16,486,589	-	17,329,917	-

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

24 GOODWILL

	Company	
	2014	2013
	US\$	US\$
Cost:		
Balance at beginning and at end of year	2,384,008	2,384,008

Impairment test of goodwill

Goodwill is allocated to the cash generating unit ("CGU") Avation.net Inc which is in the procurement business.

The recoverable amount of CGU has been determined based on value-in-use calculations. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a three-year period.

Key assumptions used for value-in-use calculations:

	2014	2013
Average cash flow growth rate	2%	2%
Terminal growth rate	2%	2%
Discount rate	6.5%	6.5%

Management determined cash flow growth based on past performance and its expectations of the market development. The terminal growth rate of 2% that was used to extrapolate cash flows beyond the budget period did not exceed the long term average growth rate for the business in which the CGU operates. Management has estimated that the recoverable amount of CGU is US\$2,758,841.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

25 TRADE AND OTHER PAYABLES

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Current				
Trade payables	1,268,587	1,532,786	1,213,313	1,467,964
Trade payables – subsidiaries	–	–	–	55,258
Non-trade payables	109,744	334,138	–	–
Non-trade payables - subsidiaries	–	–	15,030,014	2,111,843
Interest bearing loan – related parties (a) to (e)	6,500,000	6,000,000	2,000,000	–
Interest payable – related parties	27,917	35,265	9,863	9,863
Deferred income	3,530,305	3,426,841	14,641	14,641
Deferred income – subsidiaries	–	–	98,600	98,600
Accrued expenses	1,204,748	759,772	126,025	82,591
	12,641,301	12,088,802	18,492,456	3,840,760
Non-current				
Deposits collected	8,188,983	7,088,610	958,091	71,487
Interest bearing loan – related party (c)	–	2,000,000	–	2,000,000
	8,188,893	9,088,610	958,091	2,071,487

- (a) Interest bearing loan due to an entity over which key management personnel have significant influence of US\$NIL (2013: US\$1,200,000). The loan is unsecured and repayable upon demand. Interest is charged at 9.75% (2013: 9.75%) per annum.
- (b) Interest bearing loan due an entity over which key management personnel have significant influence of US\$NIL (2013: US\$1,000,000). The loan is unsecured and repayable upon demand. Interest is charged at 10% (2013: 10%) per annum.
- (c) Interest bearing loan due to an entity over which key management personnel have significant influence of US\$2,000,000 (2013: US\$2,000,000). The loan is unsecured and repayable by October 2014. Interest is charged at 10% (2013: 10%) per annum.
- (d) Interest bearing loan due to an entity over which key management personnel have significant influence of US\$4,500,000 (2013: US\$3,000,000). The loan is unsecured and repayable upon demand. Interest is charged at 9.75% (2013: 9.75%) per annum.
- (e) Interest bearing loan due to an ex-director of a subsidiary of US\$Nil (2013: US\$800,000). The loan is unsecured and repayable upon demand. Interest is charge at 9.75% (2013: 9.75%) per annum.

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

The average credit period taken to settle non-related party trade payables is approximately 30 to 60 days.

The deposits collected were from customers in respect of aircraft lease commitments, and have been discounted to their present value at a current pre-tax rate that reflect the risks specific to these deposits. These deposits will be refunded at the end of the lease terms.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

25 TRADE AND OTHER PAYABLES (CONT'D)

The trade and other payables denominated in foreign currencies are as follows:

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Pounds sterling	135,884	45,263	91,379	109,159
Australian dollars	6,256	47,768	6,256	25,750
Euro	81,382	9,322	75,979	43,125
Singapore dollars	91,604	82,944	16,125	96,689

26 DEFERRED LEASE INCOME

The deferred lease income is the difference between the present value and the principal amount of the deposits received from a customer. The deferred lease income is amortised through the statement of comprehensive income on a straight line basis over the lease term.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

27 LOANS AND BORROWINGS

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Secured borrowings	253,706,304	202,561,756	12,054,809	–
Junior secured borrowings	20,951,782	14,036,835	–	–
Obligations under finance lease	–	46,850,992	–	13,470,218
Total	274,658,086	263,449,583	12,054,809	13,470,218
Less: current portion of borrowings	(55,673,186)	(24,243,718)	(1,415,411)	(1,415,411)
	218,984,900	239,205,865	10,639,398	12,054,807

	Maturity		Weighted average interest rate per annum	
	2014 US\$	2013 US\$	2014 %	2013 %
Secured borrowings	2014-2026	2013-2022	4.9	4.7
Junior secured borrowings	2020-2023	2021-2022	6.4	6.6
Finance leases	–	2018-2022	–	8.3
Total			5.1	5.4

Secured borrowings are secured by first ranking aircraft mortgages in respect of the aircraft purchased with the proceeds of the borrowings, security assignments of the Group's right under the leases and other contractual documents relating to the aircraft, charged over the bank accounts in which lease payments relating to the aircraft are received and charged over the issued share capital of certain subsidiaries.

Junior secured borrowings are secured by the second ranking aircraft mortgages, security assignments and charges over bank accounts.

The carrying amounts of the borrowings approximate their fair values.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

27 LOANS AND BORROWINGS (CONT'D)

Obligations under finance lease

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Future minimum lease payments due:				
Within one year	–	6,468,612	–	1,992,612
After more than one year but within 5 years	–	31,542,346	–	13,638,346
More than 5 years	–	33,001,700	–	–
Less: Finance charges	–	71,012,658	–	15,630,958
Present value of minimum lease payments	–	(24,161,666)	–	(2,160,740)
	–	46,850,992	–	13,470,218
The present value of minimum lease payments is analysed as follows:				
Within one year	–	2,694,958	–	1,415,411
After more than one year but within 5 years	–	18,635,952	–	12,054,807
More than 5 years	–	25,520,082	–	–
Balance at end of year	–	46,850,992	–	13,470,218

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

28 SHORT-TERM PROVISIONS

	Group	
	2014 US\$	2013 US\$
Maintenance reserve claim	–	3,757,081

	Group	
	2014 US\$	2013 US\$
Movement in provision for maintenance provisions claim is as follows:		
Balance at beginning of financial year	3,757,081	2,969,169
(Reversal) Provision made during the financial year	(114,927)	1,860,732
Excess provision written back to profit or loss	(2,914,401)	–
Provision used during the financial year	(727,753)	(1,072,820)
Balance at end of financial year	–	3,757,081

A provision of US\$Nil (2013: US\$1,860,732) was made during the year ended 30 June 2014. This provision is based on maintaining a sufficient balance to match expected drawdowns of reserves over the lease period of the aircraft.

There were drawdowns totalling US\$727,753 (2013: US\$1,072,820) on the reserves for the year ended 30 June 2014.

At the end of the financial year, there was no provision for maintenance claim as the Group has revised the lease terms upon renewal of these leases during the year to exclude the collection of maintenance rent and there will be no future claims against the maintenance reserve funds. Any unclaimed balance as at the end of the lease is not refundable to the lessee and hence these were credited to the profit or loss as maintenance rent income.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

29 DEFERRED TAX LIABILITIES

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

<u>Group</u>	Assets 2014 US\$	Liabilities 2014 US\$	Net 2014 US\$
Property, plant and equipment	–	6,463,743	6,463,743
Other items	–	(41,888)	(41,888)
Tax losses carried forward	–	–	–
Tax (assets)/ liabilities	–	6,421,855	6,421,855
Set off tax	–	–	–
Net tax (assets)/ liabilities	–	6,421,855	6,421,855
	Assets 2013 US\$	Liabilities 2013 US\$	Net 2013 US\$
Property, plant and equipment	–	5,197,011	5,197,011
Other items	–	(9,094)	(9,094)
Tax losses carried forward	–	–	–
Tax assets	–	5,187,917	5,187,917
Set off tax	–	–	–
Net tax (assets)/ liabilities	–	5,187,917	5,187,917

Movement in temporary differences during the financial year:

<u>Group</u>	Balance 1 July 2013 US\$	Recognised in profit or loss US\$	Recognised in equity US\$	Balance 30 June 2014 US\$
Property, plant and equipment	5,197,011	1,266,732	–	6,463,743
Other items	(9,094)	(32,794)	–	(41,888)
Tax losses carried forward	–	–	–	–
	5,187,917	1,233,938	–	6,421,855

Movement in temporary differences during the last financial year:

<u>Group</u>	Balance 1 July 2012 US\$	Recognised in profit or loss US\$	Recognised in equity US\$	Exchange adjustment US\$	Balance 30 June 2013 US\$
Property, plant and equipment	5,268,872	1,233,900	(1,292,443)	(13,318)	5,197,011
Other items	644,964	(654,058)	–	–	(9,094)
Tax losses carried forward	29,364	(29,364)	–	–	–
	5,943,200	550,478	(1,292,443)	(13,318)	5,187,917

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

29 DEFERRED TAX LIABILITIES (CONT'D)

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

<u>Company</u>	Assets 2014 US\$	Liabilities 2014 US\$	Net 2014 US\$
Property, plant and equipment	–	623,548	623,548
Other items	–	–	–
Tax losses carried forward	–	–	–
Tax assets	–	623,548	623,548
Set off tax	–	–	–
Net tax (assets)/ liabilities	–	623,548	623,548
	Assets 2013 US\$	Liabilities 2013 US\$	Net 2013 US\$
Property, plant and equipment	–	366,533	366,533
Other items	–	–	–
Tax losses carried forward	–	–	–
Tax assets	–	366,533	366,533
Set off tax	–	–	–
Net tax (assets)/ liabilities	–	366,533	366,533

Movement in temporary differences during the financial year:

<u>Company</u>	Balance 1 July 2013 US\$	Recognised in profit and loss US\$	Recognised in equity US\$	Balance 30 June 2014 US\$
Property, plant and equipment	366,533	257,015	–	623,548

Movement in temporary differences during the last financial year:

<u>Company</u>	Balance 1 July 2012 US\$	Recognised in profit or loss US\$	Recognised in equity US\$	Exchange adjustment US\$	Balance 30 June 2013 US\$
Property, plant and equipment	315,043	65,542	–	(13,318)	366,533

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

30 SHARE CAPITAL AND TREASURY SHARES

a) Share capital

	2014		2013	
	No of shares	US\$	No of shares	US\$
Allotted, called up and fully paid Ordinary shares of 1 penny each				
At 1 July	48,822,960	878,519	42,374,463	779,618
Issue of shares	781,679	12,782	6,448,497	98,519
At 30 June	<u>49,604,639</u>	<u>891,301</u>	<u>48,822,960</u>	<u>878,137</u>

The holders of ordinary shares (except for treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

- a) On 3 March 2014, the Company issued 240,775 ordinary shares of 1 penny each at 110.5 pence following the exercise of warrants by a warrant holder raising gross proceeds of US\$445,724.
- b) On 6 March 2014, the Company issued 159,225 ordinary shares of 1 penny each at 110.5 pence following the exercise of warrants by warrant holders raising gross proceeds of US\$293,650.
- c) On 26 June 2014, the Company issued 381,679 ordinary shares of 1 penny at each 131 pence each as consideration for the acquisition of 2,500,000 ordinary shares in its subsidiary, Capital Lease Aviation PLC.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

30 SHARE CAPITAL AND TREASURY SHARES (CONT'D)

b) Treasury shares

	2014		2013	
	No of treasury shares	US\$	No of treasury shares	US\$
At 1 July	150,000	214,498	–	–
Acquired during the year	300,000	467,835	150,000	214,498
At 30 June	450,000	682,333	150,000	214,498

a) On 19 September 2013, the Company acquired 150,000 of its shares at a price of 94 pence per ordinary share presenting approximately 0.31% of the Company's issued ordinary share capital at that time. The total amount paid to acquire the shares was US\$226,106 and this was presented as a component within shareholders' equity.

b) On 24 September 2013, the Company acquired 150,000 of its shares at a price of 100 pence per ordinary share representing 0.31% of the Company's issued ordinary share capital at that time. The total amount paid to acquire the shares was US\$241,729 and this was presented as a component within shareholders' equity.

31 SHARE BASED PAYMENTS

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

Each share warrant converts into one ordinary share of Avation PLC on exercise. No amounts are paid or are payable by the recipient on receipt of the warrant. The warrants carry neither rights to dividends nor voting rights.

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

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

31 SHARE-BASED PAYMENTS (CONT'D)

Movement of warrants during the financial year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, warrants during the financial year:

	2014		2013	
	No.	WAEP	No.	WAEP
Outstanding at 1 July	800,000	110.5 pence	1,275,000	94.5 pence
- Granted	1,240,000	110.0 pence	-	-
- Exercised	(400,000)	110.5 pence	(110,510)	67.5 pence
- Lapsed/Cancelled	(400,000)	-	(364,490)	-
Outstanding at 30 June	1,240,000	110.0 pence	800,000	110.5 pence
Exercisable at 30 June	-	-	800,000	110.5 pence

The weighted average fair value of the warrants granted during the financial year was 1.06 pence (2013: 8.17 pence). The fair value of the warrants granted during the current financial year was US\$22,408 which has not been expensed in these accounts as it is not material. The charge recognised in the profit and loss account in respect of share based payments is \$nil (2013: \$nil).

The weighted average share price at the date of exercise of the warrant exercised during the financial year was 110.5 pence (2013: 67.5 pence).

All warrants are settled in equity.

Warrants outstanding at the end of the year have the following expiry date and exercise price:

Warrants series

signed on	Expiry date	Exercise price	No of warrants	
			2014	2013
(1) 14 Dec 2011	11 Dec 2013	110.5 p	-	800,000
(2) 20 Nov 2013	21 Nov 2016	110.0 p	1,240,000	-

AVATION PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

31 SHARE-BASED PAYMENTS (CONT'D)

The warrants granted on 4 November 2013 and signed on 20 November 2013 has a 3 year vesting schedule and the details are as follows:

Vesting period	Proportion of total share options that are exercisable
Before 20 November 2014	0 per cent
On 20 November 2014 and before 20 November 2015	Up to 33 per cent of the grant
On 20 November 2015 and before 20 November 2016	Up to another 33 per cent of the grant Or Up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 20 November 2016	Balance Or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

The warrants were priced using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on the management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past four months.

**Warrant series signed on
20 November 2013**

Inputs into the model

Grant date share price	123.0 pence
Exercise price	110.0 pence
Expected volatility	20%
Warrant life	3 years
Dividend yield	1.01%
Risk free interest rate	0.35%

The Company issued a total of 1,240,000 warrants during the financial year at 110.0 pence when the then market price was 123.0 pence.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

32 CAPITAL COMMITMENTS

Capital expenditure contracted for at the reporting date but not recognised in the financial statements are as follows:

	Group	
	2014	2013
	US\$	US\$
Property, plant and equipment	201,841,915	175,229,908

The above capital commitments represent amounts due under contracts entered into by the group to purchase aircraft after exercising options. The company has paid deposits towards the cost of these aircraft which are included in trade and other receivables.

In addition to the aircraft which the group has committed to purchasing, the group holds options to purchase an additional 10 aircraft at agreed prices. The options are held in the statement of financial position at cost as it is not possible to place a reliable estimate on their fair values. Uncertainties exist over the finance to exercise the options and the market price of the aircraft at the time of delivery, given aircraft are non-financial assets with no indexed market and long lead times. There is no open market on which to trade the options, accordingly it is not considered appropriate to recognise any potential gain on these options arising from potential increases in aircraft values over and above the option price.

33 OPERATING LEASE COMMITMENTS

a) Leases as Lessor

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

	Group	
	2014	2013
	US\$	US\$
Within one year	49,520,759	46,841,352
In the second to fifth years inclusive	175,180,914	138,519,513
More than five years	111,265,903	114,490,041

AVATION PLC

NOTES TO FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

34 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Chairman (“Chief Operating Decision Maker” or “CODM”) that are used to make strategic decisions.

The CODM considers the business from a business segment perspective. Management manages and monitors the business in the 2 primary business areas: aircraft leasing and business procurement.

a) Segment reporting policy

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

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

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

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

b) Business segments

During the year ended 30 June 2014, the Group was organised into two main business segments which are aircraft leasing and business procurement.

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

The business procurement segment does not meet the quantitative thresholds and is not separately disclosed.

AVATION PLC

NOTES TO FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

34 SEGMENT INFORMATION (CON'T)

c) Geographical analysis

2014	Europe US\$	North America US\$	Australia and Oceania US\$	Asia US\$	Total US\$
Revenue	11,700,000	650,000	39,905,209	–	52,255,209
Capital expenditure and valuation movements	–	–	36,095,859	35,679,762	71,775,621
Net book value - aircraft	79,215,923	6,841,366	281,207,642	–	367,264,931
Total assets	96,652,653	6,841,366	307,695,428	4,438,868	415,628,315
<hr/>					
2013	Europe US\$	North America US\$	Australia and Oceania US\$	Asia US\$	Total US\$
Revenue	9,321,466	1,560,000	31,464,032	394,493	42,739,991
Capital expenditure and valuation movements	22,479,404	–	128,897,926	5,198	151,382,528
Net book value - aircraft	83,055,817	8,197,125	255,939,738	–	347,192,680
Total assets	105,139,334	8,197,159	258,760,998	22,285,809	394,383,300
<hr/>					

During the year, certain customers accounted for greater than 10% of the Group's total revenues. There is one customer that accounts for US\$39,722,478 (76%) of the Group's total revenues from continuing operations. These revenues were based in the Australia and Oceania geographical area. There is one customer that accounts for US\$8,400,000 (16%) of the Group's total revenue. These revenues were based in the European geographical area.

AVATION PLC

NOTES TO FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

35 CONTINGENT LIABILITIES

i. Lease-end/re-delivery adjustment compensation

The Company's subsidiary, MSN 1607 Pte Ltd owns an aircraft where there may be a contingent liability to pay amounts to the lessee dependent upon the return condition of the aircraft at the end of the lease term. It would only become payable by the subsidiary to the lessee in the event that the aircraft is returned at lease-end/re-delivery at the end of the lease in April 2018 in a condition which exceeds certain criteria agreed at the inception of the lease. Management is of the view that the return condition of the aircraft will be such that a sum will be due to the Group. Given that the lease continues until April 2018, the directors are of the opinion that it is impossible to accurately estimate the return condition of the aircraft given the number of variables such as aircraft usage and timing of maintenance events. The directors have assessed several different outcomes and consider that the likely outcome would result in a cash inflow from the lessee. On this basis, the directors have not recognised a contingent asset or liability in this set of financial statements.

ii. Withholding tax on interest paid to lenders

During the current financial year, the Group's Singapore subsidiaries have obtained interest bearing loans from foreign lenders. Under the Singapore Income Tax Act, the Group is required to withhold tax on the interest payments made to the lenders.

Management is in the process of applying to the Singapore Ministry of Finance ("MOF") for a withholding tax exemption under Section 13 of the Income Tax Act. As management is of the view that the Group is, more likely than not, to obtain the withholding tax exemption from MOF and that it is not probable that the Group will make the withholding tax payments, the Group has not provided for the withholding tax payable at the end of the reporting period.

Had the Group provided for withholding tax profit for the period would be reduced by approximately US\$223,000.

iii. Guarantees

	Group	
	2014	2013
	US\$	US\$
Guarantees	<u>274,658,086</u>	<u>216,598,591</u>

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

AVATION PLC

NOTES TO FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

36 DIVIDEND

	2014 US\$	2013 US\$
<i>Declared and paid during the financial year</i>		
<i>Dividends on ordinary shares</i>		
- Final exempt (one-tier) dividend for 2013:1.78 US cents (2012:1.04 pence) per share	<u>866,621</u>	<u>745,618</u>
<i>Proposed but not recognised as a liability as at 30 June</i>		
<i>Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting</i>		
- Final exempt (one-tier) dividend for 2014: 2.01 US cents (2013: 1.78 US cents) per share	<u>988,008</u>	<u>866,621</u>

Dividends to Company's shareholders are recognised when the dividends are approved for payments.

37 ULTIMATE HOLDING COMPANY

No party controls the Company.

AVATION PLC

NOTES TO FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

38 SUBSEQUENT EVENTS

On 3 July 2014, the Company issued 3,000,000 ordinary shares of 1 penny each at 140 pence following a private placement exercise raising gross proceeds of £4.2 million (equivalent to US\$7,193,760).

On 22 September 2014, the Company has agreed to acquire 21,065,334 ordinary shares in its subsidiary, Capital Lease Aviation PLC ("CLA") at a price of 20.5 pence per share in cash, increasing its holding of voting rights in CLA's issued share capital to 90.59% (disregarding the shares CLA holds in treasury). The transaction has been entered into with the second largest shareholder in CLA after the Company itself and is expected to complete on or behalf 18 November 2014.

Between 24 September and 1 October 2014, the Company acquired 4,705,949 ordinary shares in CLA. This increases the Company's interest in the voting rights in CLA's issued share capital to 95.44%. The consideration for the acquisition of 2,184,216 of the CLA shares acquired was the allotment of 273,027 new ordinary shares in the Company, representing 0.52% of the Company's existing issued share capital. The balance of 2,521,733 CLA shares were acquired through the market at a price of 20.5 pence in cash. Settlement for shares purchased with cash was on normal market terms.

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company and the consolidated financial statements of the Group for the financial year ended 30 June 2014 were authorised for issue by the Board of Directors on 17 October 2014.

REGISTER OF TOP 20 SHAREHOLDERS

(As at 28 October 2014)

Name of Shareholder	Holding (Number of shares)
Goldman Sachs Securities (Nominees) Limited	12,058,140
Chase Nominees Limited	9,331,140
Fitel Nominees Limited	4,690,001
HSBC Global Custody Nominee (UK) Limited	3,338,227
Chase Nominees Limited	2,870,000
Vidacos Nominees Limited	2,240,295
HSBC Global Custody Nominee (UK) Limited	2,055,000
Lynchwood Nominees Limited	1,261,197
Smith & Williamson Nominees Limited	1,229,366
Barclayshare Nominees Limited	922,436
Vidacos Nominees Limited	707,720
Fitel Nominees Limited	677,646
Roy Nominees Limited	650,000
HSBC Global Custody Nominee (UK) Limited	615,000
W H Ireland Nominees	589,699
L R Nominees Limited	533,241
The Corporation Of Lloyds	460,922
TD Direct Investing Nominees Limited	426,484
Vidacos Nominees Limited	391,010
State Street Nominees Limited	386,629



Airbus A320 aircraft at Final Assembly Line (FAL). (Photo: Airbus S.A.S.)

Annual Report 2014

avation PLC

510 Thomson Road
#12-04 SLF Building
Singapore 298135
www.ovation.net



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