

IIR Preliminary FY 2007 results

06 June 2007

Independent Intl Inv Research PLC
06 June 2007

Independent International Investment Research Plc
('the Company' or 'the Group')
6 June 2007

Final Results

Year ended 28 February 2007

Maiden operating profit

'I value the work the team does and never fail to tell anyone that IIR is in the very top rank of the IRPs with whom I deal'.

-Mark D. Fichtel, a former President and CEO of the New York Board of Trade and currently the Independent Consultant for Lehman under the Global Research Settlement

Highlights:

- Despite an adverse currency impact, Group turnover £1,062,000, up 16% year-on-year (2006: £914,000)
- Full year maiden operating profit of £2,000 and maiden positive earnings before interest, tax, depreciation and amortisation (EBITDA) of £37,000 (before non-cash provision for options - refer Note 1) (2006: operating loss of £194,000 and negative EBITDA of £104,000)
- Investment research coverage rises to 300 companies, and substantial new order pipeline to expand stock coverage to approximately 400 by December 2007
- Outstanding performance ranking by Investars, now part-owned by Goldman Sachs, maintained and improved through the year
- Group begins to benefit from its newly established research subsidiary in India, bringing superior talent, closer control and lower costs
- Appointment of three senior executives to underpin the Group's growth and strategy
- First dedicated sales appointment in New York expected
- Appointment of initial two members of an Advisory Board to assist in product, acquisition and corporate finance strategy
- First institutional business wins in People's Republic of China
- Group acquires stake in a start-up company in a new, diversified, business space
- Market expectations of 2008 revenues are expected to be achieved based on current and committed business only, before consideration of business from new clients, the contributions of revenues from new products, or earnings-accretive acquisitions.

Chairman and Chief Executive's review

I am pleased to report on a year during which we have both expanded our business based on the current set of research products, and have substantially completed

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the preparation to deliver an enlarged range of research products through an expanded set of partner sales channels, to a number of new and very large global audiences.

Financial Results

Group turnover increased by 16% to £1,062,000 despite an adverse currency impact caused by the weakening US dollar. During the year, research activities previously undertaken by contractors were brought in-house following the establishment of the Group's India based research team. The closer control that has resulted from this initiative has resulted in an improved gross margin which rose to 59.5% as compared to 51.5% the previous year. Coupled with a reduction in administrative expenses from £665,000 in the year to 28 February 2006 to £629,000 in the year just ended, this has resulted in an operating profit of £2,000 and maiden positive EBITDA of £37,000 (2006 : operating loss of £194,000 and negative EBITDA of £104,000). Both of these figures are before an exceptional non-cash expense of £296,000 to reflect the fair value of awards made under the Group's new Employee Share Ownership Plan in accordance with the recently introduced accounting standard FRS 20 (refer to Note 1.)

The Group is now experiencing growing positive net cashflows from its on-going business and this, together with the available finance facilities, provides a strong platform for future business growth.

Operations

The core business of the Group continues to be the provision of fundamental research coverage on global equities, together with an assessment of the impact of currency movements, to major international broker-dealers/investment banks. The volume and value of this business has increased over the course of the year and as a result the Group achieved a maiden operating profit and positive EBITDA (before the impact of the FRS 20 provision). During the course of the year, the Group committed to significant additional resources in sales and operations, in order to develop new products and build a sales pipeline which together are expected to bear fruit in 2007, and more meaningfully in 2008. As a result, the product and revenue mix is expected to evolve significantly over the next 12 months.

Independent evaluation of IIR's research performance: another strong year

Recommendations published by the Group are submitted to Investars, the New-York based specialist in the field of research performance evaluation minority-owned by Goldman Sachs, on the day of publication for independent scrutiny and evaluation on the basis of model portfolios constructed by Investars.

Following on from the Group's exceptionally strong debut in the Investars ranking last year, the key findings summarised here see the Group make further advances and out-perform many of its larger and better-known competitors.

Long-only model portfolio (buy recommendations only):

Over the last:	Annual return %	Ranking
3 Years	30%	2nd of 44 firms
2 Years	32.5%	1st of 46 firms
Past year	32.5%	1st of 46 firms

In each year the Group's model portfolio significantly outperformed the returns from the model portfolio, calculated on the same basis, generated by research from the market leader in the independent research space.

Long and Short model portfolio (buy and sell recommendations):

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Over the last:	Annual return %	Ranking
3 Years	7.5%	19th out of 43 firms
2 Years	10%	19th out of 45 firms
Past year	5%	23rd out of 44 firms

In each year the ranking has improved, and its model portfolio significantly outperformed returns from the model portfolio, calculated on the same basis, generated from research from the market leader in the independent research space (which generated either neutral or negative returns).

Data is correct as at 4 June 2007

Providing incentives and rewards for our team: Employee Share Ownership plan

I am pleased to report that an ESOP was approved and implemented during the year with initial awards made to all staff in December 2006. Retaining the best talent within the Group is key to maintaining the high standards that have been achieved to date.

Strengthening of the executive team

During the year the Group has sought out additional talent to assist the growth drive. Recent appointments are:

David Ledsham, 53, PhD, ACA, joined the board as Group Finance Director and Company Secretary.

David holds a PhD in solid-state physics and gained his ACA with Arthur Andersen. He has held two previous positions as CFO, most significantly with The EBS Partnership, one of the world's two leading electronic foreign exchange brokers. His experience at EBS of dynamic growth, both organic and through a hands-on role in acquisitions, is seen as being of particular benefit to the Group's plans this year, as is the international exposure that he has gained.

Satish Bedatpur, 45, MSc, CFA, joined the board as Head of Research and CEO, Asia. Satish holds dual US-Indian nationality and has re-located from San Francisco to take up his position based in Mumbai. His career for the past 21 years has been developed in New York and California, where his most recent positions have been as Chief Investment Officer and Managing Director, Equity Research. His experience spans fixed income and international equities, in a number of senior and very accomplished roles, most recently as head of a \$120mn hedge fund and responsible for a team of 76 staff. He was formerly a Managing Director, Equity Research, at the Teachers Insurance Annuity Association - College Retirement Equities Fund (TIAA-CREF), in New York.

Malcolm Donaldson, 50, MSc, formerly a non-executive director, joined the Group full time as New Business Development Director earlier this year. Group sales objectives have subsequently been adjusted in order to make optimal use of the resources at our disposal and as part of this, Malcolm now resumes a non-executive role with an additional responsibility to implement a network of introducing agents for the Group's research products, focusing on those geographies which are out of reach of the Group's core sales channels.

In addition, I am pleased to announce the creation of an Advisory Board, comprising initially:

Stephen Goschalk, 55, BSc(Econ.), FCA, MSI, graduated from the London School of Economics in 1974. He then joined Touche Ross & Co. (now Deloitte) in London where he qualified as a chartered accountant in 1977. He worked in the insolvency departments in London and Toronto before becoming a fund manager with London Trust, a listed investment trust in 1982. He became a corporate financier in 1985 and most recently worked for Insinger de Beaufort specialising in smaller companies and the AIM Market of the London Stock Exchange. He now works for Resources Services Limited, part of the Newland Resources Group, providing in-house corporate finance advice but also acts as a consultant to

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both AIM and listed companies in corporate finance and strategic planning and operations. Stephen joins the Advisory Board with special responsibility for corporate development and finance, and acquisitions strategy.

Michael Mayhew graduated from Stanford University in 1981 and began his career as an economist with MMS International in 1982. He continued through Standard and Poor's Financial Information Services Group before a five-year tenure as CEO and President of Garban Information Systems. Mike founded Integrity Research Associates LLC in 2000 and has built the firm into the leading consultancy in the fast-changing research space, frequently cited in relevant media such as Reuters, Investment Dealers Digest, Institutional Investor Magazine, Bloomberg News, Forbes, the Wall Street Journal, the New York Times, the Financial Times, and Business Week.

Mike is currently a member of the Board of Directors of Investorside, the non-profit trade organization for the independent research community and joins the Group's Advisory Board on behalf of Integrity, with special responsibility for product development and US market strategy and acquisitions.

Growth drivers and acquisition strategy

The outlook for the Group is underpinned by a number of growth drivers in our business and its markets.

Sales of existing product are a priority for the Group, since these make the most significant contribution to operating profits. A number of further distribution arrangements have been concluded or are near conclusion, including Wall Street on Demand, Thomson, and FactSet. Together with our in-house sales and marketing resources, these distribution channels are expected to drive sales through traditional subscriptions as well as the commission-sharing arrangements that are becoming increasingly the de facto standard in the industry following the accelerating adoption of commission unbundling (whereby research commissions and trade execution commissions are separately accounted for and - increasingly - spent with different supplier firms).

In addition to sales of our existing product, we see a building pipeline of sales of our existing product with some customisation work. These negotiations, for higher value contracts, tend to be protracted - as are those for purely bespoke research work. Earnings visibility is therefore difficult.

Additional significant organic growth is expected with the up-coming launch of three new research products which will be announced shortly.

Meanwhile the Group has been actively reviewing prospective acquisition targets and continues to do so. The independent research space is highly fragmented, comprising mostly privately-held smaller 'boutique' research firms which typically are profitable but are very constrained in terms of capacity for additional product development, and sales channels.

The Group is positioning itself as a consolidator in this space. The Group has a strategic objective to acquire earnings-accretive companies, whose own growth can be enhanced by leverage of the Group's offshore production resources and US/European sales channels. To the owners of such small firms, the Group brings:

- An offshore resource capable of executing the research function in order to best capitalise on the acquired firm's intellectual resources;
- A sales channel capable of effectively taking the resulting products to market;
- An acquisition currency in the form of the Group's shares, which provides the firm's owners a means to crystallise its value

Privately-owned research firms are typically valued at earnings multiples below those of public companies. Acquisition of such firms therefore adds shareholder value, even before consideration of production and sales benefits.

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The Group is targeting at least one such acquisition during the current year, as well as at least one acquisition in India, most likely a Knowledge Process Outsourcing (KPO) firm, to boost its research resources.

Regulatory changes in China: opportunities for equity research

China has been in the midst of an equity trading bull market, during which it is reported that individual broking accounts stand at some 100m and are being opened at rates on occasion exceeding one million per week. Meanwhile, and more significantly, regulatory changes announced during May 2007 allow domestic institutional fund managers to begin to invest in overseas equities, and the sharp domestic share price correction of the past week will likely serve to promote international stock exposure. We believe that as a consequence there will be strong demand for quality, international company research - which is the Group's forte - and the Group's sales resource in China is being re-focused appropriately.

Pronet - Live, streaming research and commentary on global spot foreign exchange

As reported in the trading update of 20 December 2006, the first institutional client in China contracted with the Group late last year and a second was expected imminently. I am pleased to confirm that this second client did subsequently contract with the Group.

The Group launched a localised Chinese language version of Pronet in April 2005 and adopted an alternative revenue model in collaboration with the leading regional on-line trading platform, Forex Capital Markets, Inc (FXCM Asia). Despite disruption to Pronet's business (along with all web-based services) arising from the Taiwan Straits earthquake early this year, business has developed positively and the Group has in May added a second, similar relationship through City Credit Capital (UK) Ltd. This relationship has shown very positive early signs.

In addition to these subscription and broker collaboration revenue models, the Group will shortly launch a version of Pronet for public access, provided free of charge and supported by advertising revenues. It is not anticipated that this will cannibalise the other revenue models. This new revenue source is expected to compensate for any impact of diversion of the Group's resources to sales of equity research in China.

Additional new revenue models

In addition to the Group's core equity research subscription revenue model and the new advertising revenue model for Pronet described above, two new models are being implemented with test clients currently:

- A trading profit-share scheme with a leading hedge fund; and
- A trading commission share scheme with a broker.

Meanwhile commission sharing arrangements with asset managers are expected to make a contribution to Group revenues during the course of the coming year.

Operations in China

Software research and development for the Group is currently carried out in Beijing. This arrangement is currently under review and may be relocated to the Group subsidiary in Mumbai.

Google

The Group has been in dispute with Google, Inc. since 2004 in relation to

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Google's use of the trademark 'Gmail'. The Group expects to make a separate announcement on this matter in due course.

Group shareholding in a new, diversifying, business

The family trust of the Group Chief Executive is providing seed funding for a start-up in a high growth, high potential business space. The Group is providing certain services to the new company and in exchange has acquired a 10% stake in the initial share capital of the company.

Investor relations

In the course of the coming twelve months the Group intends to engage in a number of investor relations initiatives in order to raise its profile with both shareholders and clients. The first such initiative is the Growth Company Investor Show on 13th June at London's Barbican Exhibition Centre.

Rather than at the Group's offices in London, it is expected that the AGM will be held at a London venue (to be announced). This event will give investors an opportunity to meet with the Group's enlarged board and management team.

Currency Risk

Though this is expected to change over the coming 18-24 months, the majority of Group revenues currently arise in US dollars whereas costs are largely in Sterling or Indian Rupees. Continued dollar weakness of late versus Sterling has had a negative impact on revenues and earnings. We now expect no meaningful reprieve from this trend over the next 24 months and have consequently adopted a £/US\$ exchange rate of 2.05 for planning purposes. Meanwhile the Group's currency exposure remains too small to hedge efficiently.

New website to enhance and promote the Group brand and positioning

We are pleased to launch today our new web site, which provides additional investor information in line with recent AIM guidelines. At the same time we have taken the opportunity to update and refresh our branding both on-line and off line. An example of our new research report branding is available at www.iirgroup.com where you will also find a schedule of current research coverage, updated monthly as our research universe expands.

Outlook

With the benefit of an expanding research inventory, an enhanced senior management team, three additional research distribution arrangements, a number of new pipeline products and additional revenue models, all adding to a strong product performance, a well controlled cost base and a healthy growth in demand for independent research driven by regulatory changes around the world, the Group looks forward to further growth in the coming year.

For further information please contact:

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INDEPENDENT INTERNATIONAL INVESTMENT RESEARCH PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 28 FEBRUARY 2007

	Notes	2007 £000's	2006 £000's
Turnover		1,062	914
Cost of sales		(431)	(443)
Gross profit		631	471
Administrative expenses		(629)	(665)
Share based payments	1	(296)	-
Operating (loss)	2	(294)	(194)
Interest receivable and similar income		-	1
Interest payable and similar charges		(20)	(14)
(Loss) on ordinary activities before taxation		(314)	(207)
Tax on (loss) on ordinary activities		(9)	(0)
(Loss) on ordinary activities after taxation		(323)	(207)
(Loss) for the financial year		(323)	(207)
(Loss) per share - basic and diluted	3	(1.3)p	(1.1)p

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognized gains and losses other than those passing through the profit and loss account.

INDEPENDENT INTERNATIONAL INVESTMENT RESEARCH PLC

BALANCE SHEETS

AS AT 28 FEBRUARY 2007

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
Fixed assets					
Tangible assets	48	23	-	-	-
Intangible assets	376	396	-	-	-
Investments	-	-	555	555	555
	424	419	555	555	555
Current assets					
Debtors	331	135	108	130	130
Cash at bank and in hand	71	170	3	1	1
	402	305	111	131	131

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Creditors: amounts falling due within one year	(813)	(684)	(105)	(137)
Net current assets (liabilities)	(411)	(379)	6	(6)
Total assets less current liabilities	13	40	561	549
Creditors: amounts falling due after more than one year	(70)	(70)	(70)	(70)
	(57)	(30)	491	479
Called up share capital	254	254	254	254
Share premium account	4,682	4,682	4,682	4,682
Other reserves	1,381	1,085	1,381	1,085
Profit and loss account	(6,374)	(6,051)	(5,826)	(5,542)
Shareholders' funds - equity interests	(57)	(30)	491	479

INDEPENDENT INTERNATIONAL INVESTMENT RESEARCH PLC

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2007

	2007 £000's	£000's	2006 £000's	£000's
Net cash inflow/(outflow) from operating activities		(144)		96
Returns on investments and servicing of finance				
Interest received	-		1	
Interest paid	(20)		(14)	
Net cash (outflow) from returns on investments and servicing of finance		(20)		(13)
Taxation				
Corporation tax paid		(36)		-
Capital expenditure and financial investment				
Payments to acquire subsidiaries	-		(5)	
Payments to acquire tangible assets	(40)		(5)	
Net cash (outflow) from capital expenditure		(40)		(10)
Net cash inflow (outflow) before management of liquid resources and financing		(240)		73
Financing				
Issue of shares	-		99	
New term loan	180		9	
Repayment of bank loans	(15)		(16)	
Repayment of other loans	(24)		-	
Net cash inflow from financing		141		92
(Decrease)/increase in cash in the year		(99)		165

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INDEPENDENT INTERNATIONAL INVESTMENT RESEARCH PLC

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2007

1. Reconciliation of operating loss to net cash outflow from operating activities.

	2007 £000's	2006 £000's
Operating profit (loss)	(294)	(194)
Depreciation of tangible assets	15	81
Amortisation of goodwill	20	9
(Increase) in operating debtors	(196)	(36)
Increase (decrease) in operating creditors	15	236
Non cash movement - share based payments	296	-
Net cash inflow (outflow) from operating activities	(144)	96

2. Analysis of net debt

	1 March 2006	Cash flow	Other non-cash changes	28 February 2007
Net cash				
Cash at bank and in hand	170	(99)	-	71
	170	(99)	-	71
Debts falling due within one year	(102)	(138)	-	(240)
Debts falling due after one year	(70)	-	-	(70)
Net debt	(172)	(138)	-	(310)
	(2)	(237)	-	(239)

3. Reconciliation of net cash flow to movement in net debt

	2007	2006
Increase (decrease) in cash in the year	(99)	165
Cash inflow (outflow) from increase (decrease) in debt	(138)	7
Movement in net debt in the year	(237)	172
Opening net (debt)/funds	(2)	(174)
Closing net debt	(239)	(2)

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INDEPENDENT INTERNATIONAL INVESTMENT RESEARCH PLC

NOTES TO THE PRELIMINARY ANNOUNCEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2007

1. Share based payment

In December 2006 and January 2007 the company issued a total of 5m employee share options following the implementation of its new Employee Share Option Plan (ESOP). These options vest over a period of 2 to 4 years. In accordance with the requirements of accounting standard FRS20, the fair value of such employee options must be recognized as an expense in the financial statements of all AIM companies for accounting periods commencing on or after 1 January 2006. A calculation has therefore been made using the directors' estimate of the likely market price at vesting date and the potential gain has been pro-rated over the vesting period. This gives an exceptional charge of £296K (2006 - NIL) which is treated as a (non-cash) administrative expense in the profit and loss account.

2. Operating loss.

	2007	2006
	£000's	£000's
Operating loss is stated after charging:		
Depreciation of tangible assets	15	81
Amortisation of goodwill	20	9
Operating lease rentals	1	2
Auditors' remuneration (company £6K; 2006 - £6K)	11	11

3. Loss per share

The loss per share is based on the loss £323K (2006 - £ 207K) and on 24,012,545 Ordinary Shares (2006 - 19,594,660), being the average number of shares in issue during the year, excluding those owned by Roy Nominees Limited. The basic loss per share and the fully diluted loss per share are identical because the exercise of the share options would reduce the loss per share and is therefore anti-dilutive.

4. Basis of Preparation

The financial information set out in this announcement does not constitute the Company's statutory financial statements within the meaning of section 240 of the Companies Act 1985, for the years ended 28 February 2006 or 2007. The statutory financial statements for the year ended 28 February 2007 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The results for the year ended 28 February 2006 have been extracted from the full accounts for that year which have been delivered to the Registrar of Companies on which the auditors have given an unqualified report and which do not contain a statement under sections 237(2) or (3) of the Companies Act 1985.

With the exception of the share based payment adjustment under FRS20, this announcement is prepared on the basis of the accounting policies as stated in the previous year's financial statements.

5. Availability of accounts

Copies of this announcement are available to members of the general public from the company's Registered Office at 30 City Business Centre, St Olav's Court,

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London, SE16 2XB. The directors currently anticipate that the Annual Report will be posted to shareholders before the end of August 2007.