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Company information

Directors
L Heyworth (Non-executive Chairman)
F Turner FR Eng (Non-executive Deputy Chairman)
P R Lewin (Chief Executive)
M P Dodge (Commercial Director)
S M Nathan FCA (Finance Director)
H N P McCorkell FCA (Non-executive Director)

Secretary
S M Nathan FCA

Company number
2887038

Registered office
28 Lancaster Road
New Barnet
Hertfordshire EN4 8AP

Auditors
Horwath Clark Whitehill
25 New Street Square
London EC4A 3LN

Solicitors
Taylor Joynson Garrett
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0DX

Bankers
Barclays Bank plc
Guildford Business Centre
Corporate Management Suite
PO Box 446
Edgeborough House
Upper Edgeborough Road
Guildford GU1 2FT

Nominated adviser and nominated broker
Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4LB

Registrars
IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Chairman's statement

Stock market listing

Aero Inventory's listing on the Alternative Investment Market of the London Stock Exchange ('AIM') in May 2000 was the culmination of four years' work. Over this period Aero Inventory developed its unique e-based service for the procurement and inventory management of small parts in the aerospace industry. It also proved its service with two substantial reference customers.

We are satisfied as a board that the business model is inherently profitable. Moreover, we feel sure that the size of the under-exploited market being addressed by Aero Inventory offers the scope for rapid growth.

I would like to thank those institutions and private individuals who supported the company at the time of the listing. I should also like to assure you that the board – members of which currently hold 49% of the issued equity – views the creation of shareholder value to be the company's overriding objective.

The placing done at the time of listing raised £3m for the company (net of expenses). This amount should allow the company to grow its business to a multiple of its current size.

Results

The results for the year to June 2000 constitute a solid performance, with a small profit at the operating level despite an increase in staff and related costs in anticipation of growth in the business. After interest and tax, there was a loss of £35,000 (1999: £21,000 profit). This was in line with our expectations at the time of the listing. At the per-share level, there was a loss of 0.81p (1999: profit 0.52p).

As indicated in the Prospectus, the company is not paying a final dividend in respect of the year to June 2000. The dividend shown in the accounts is an interim dividend paid prior to the listing under the terms of a now-cancelled shareholders' agreement.

Prospects

The main influence on our financial results in the current year and beyond will be success in winning new customers. Aero Inventory's overheads are essentially covered by the existing level of business from long-term contracts. It follows that there is scope for profits to rise substantially as new customers are secured.

Since the listing, the increased level of marketing activity has led to encouraging responses from a number of potential new customers both in the UK and overseas. As a consequence, the board views the current year with optimism.

The board

At the time of the listing, Nigel McCorkell and Frank Turner joined the board as non-executive directors. Both bring to bear a wealth of aerospace industry and general business experience.

Frank Turner, who was appointed Deputy Chairman in June 2000, has been playing a key role in support of our strategic development and associated marketing.

Thanks

The year has seen enormous efforts – in maintaining high levels of customer service and operational efficiency, enhancing IT systems and associated internal procedures and marketing to new potential customers in the UK and overseas. I would like to thank all members of the team for their commitment and enthusiasm.

Laurence Heyworth
Non-executive Chairman
24 October 2000

Chief Executive's statement

Market opportunity

The outsourcing of the procurement and inventory management of small parts in the aerospace industry is, we believe, a large, under-exploited market opportunity. Procurement and inventory management in the aerospace industry have in the past largely been undertaken in-house along traditional lines. Recently, in response to industry-wide pressures to reduce costs (driven by, among others, Boeing with its 'Lean Manufacturing Program') a trend has developed toward outsourcing. Also, the aerospace industry is rapidly becoming aware of the benefits of e-based solutions in the areas of procurement and inventory management.

The aerospace industry – encompassing aerospace manufacturers, commercial airlines, and aircraft maintenance and repair facilities – is large and global, with annual revenues of over $400bn. Aerospace companies annually purchase many billions of dollars' worth of small parts, such as fasteners, machined parts, electrical and plumbing components, cable and consumables. Indeed, we estimate that there are 100 aerospace companies in the UK alone with a small parts spend of over £100,000 per month, most of which is procured traditionally.

The Aero Inventory service

Aero Inventory is capable of offering aerospace customers a paperless procurement and inventory management service, through use of the company's IT systems and the internet. The IT system is complemented by established management information systems and internal procedures to support the customer's requirement for the delivery of a large number of different small parts to the point of use, while maintaining full traceability.

Because of the use of the internet, Aero Inventory is capable of handling overseas business out of the UK, with on-site representation as appropriate.

Review of results

The results for the year to June 2000 relate largely to the business prior to the listing on 25 May 2000 and as described in the Prospectus. Turnover reflects the level of business with our two principal existing customers, Britax Rumbold and CF Taylor; and costs reflect an increase in the number of staff in anticipation of growth.

Sales, at £3,249,000 (1999: £3,278,000), were flat with the previous year. It should be noted, however, that we minimised deliveries in the final months of the year, because we were in contemplation of purchasing customer inventory.

The achieved gross margin improved year on year. The 31% increase in staff costs – accompanying an increase in the average number of employees from 21 to 27 – was the main factor behind the reduction in operating profit to £61,000 (1999: £138,000).

Because the company only enjoyed the benefits of the placing proceeds for a little over a month, the net interest charge at £100,000 (1999: £107,000) was only slightly lower than the previous year. There was a pre-tax loss of £39,000 (1999: £31,000 profit).

The balance sheet at 30 June 2000 shows net cash of £2,176,000. This figure reflects the proceeds of the placing, but is after the repayment of approximately £610,000 of debtor finance.

New contract

On 30 August 2000 we signed a new three-year contract with CF Taylor, the manufacturer of aircraft galleys to whom Aero Inventory has been a major supplier of small parts since early 1996. The contract that this replaces was due to expire in October 2000. This success demonstrates the strength of our service offering.

Under the new contract, Aero Inventory has bought CF Taylor's inventory of parts for which we are responsible under this sole supplier agreement. As well as providing a major benefit to the customer, this change in the ownership of the inventory creates significant efficiency benefits for Aero Inventory, which is now able to charge the customer on an as-used, as opposed to as-delivered, basis; to submit a single aggregated monthly invoice, rather than large numbers of individual invoices; and to improve management of the supply chain, having to deal with only one inventory of parts, rather than two.

Information technology

Aero Inventory continues its focused investment in the IT area, with a view to remaining at the forefront of the provision of e-based solutions to aerospace customers in its field of activity.

Our website (www.aero-inventory.com) is now able to provide customer access, through a password-protected client portal, to a ‘firewalled’ area of the Aero Inventory mail server, where a customer is able to view and download a range of data relating to its usage and the inventory of parts on site. The website also carries a customer ordering facility to enable the immediate and paperless ordering of parts, and facilitates on-line paperless invoicing, which has already commenced with CF Taylor.

Marketing

Following the listing – which has put the company in a position to secure and finance additional major contracts – the company’s marketing efforts have been intensified.

Aero Inventory is currently pursuing a number of important customer prospects in the UK and overseas, spanning aerospace manufacturers, commercial airlines, and aircraft maintenance and repair facilities. Market feedback continues to suggest that Aero Inventory – with its e-based approach capable of providing customers with a paperless service – has a unique and highly attractive service offering.

Rupert Lewin
Chief Executive
24 October 2000

Directors' report

The directors present their report and the accounts for the year ended 30 June 2000.

Results and dividends

The loss for the year after taxation amounted to £(35,000) (1999: profit £21,000). An interim dividend of £30,000 was paid during the year, prior to the company's listing on the Alternative Investment Market of the London Stock Exchange ('AIM'). The directors do not recommend the payment of a final dividend.

Principal activities and review of business

The principal activity of the company is that of a holding company to its subsidiary undertaking, Hibbert & Richards Limited, which is primarily engaged in procurement and inventory management for the aerospace industry. A review of the business and future developments is given in the Chairman's and Chief Executive's statements.

On 1 March 2000 the company, formerly Hibbert & Richards Holdings Limited, changed its name to Aero Inventory Limited and on 11 April 2000 the company re-registered as a public company.

Issue of shares

Details of changes in the company's share capital are given in note 18.

Company's policy for payment of creditors

Our strategy is to have mutually beneficial long term relationships with our suppliers. The company's policy is to settle the terms of payment with suppliers and abide by those terms. At 30 June 2000 the period of credit taken from the Group's suppliers amounted to 62 days.

Directors and their interests

The directors who served during the year and their interests in the company's issued share capital were:

	Date of appointment	Ordinary shares of 1.25p each 30 Jun 2000	£1 each 30 Jun 1999[1]
L Heyworth	25 Feb 2000	1,032,016	6,250
F Turner	2 May 2000	89,475	664
P R Lewin		1,792,598	12,750
M P Dodge	26 Jan 2000	570,720	3,500
S M Nathan	20 Aug 1999	11,840	–
H N P McCorkell	6 Apr 2000	81,600	336

1 or date of appointment

Since the year end L Heyworth has purchased 5,000 shares on behalf of his son, and F Turner has purchased 4,000 shares. P R Lewin has gifted 129,210 shares to family members and friends. Apart from this there have been no changes to the directors' share holdings between 1 July 2000 and 24 October 2000.

S M Nathan has options over 15,585 ordinary shares of 1.25p which were granted on 18 May 2000 at an exercise price of 123p. The options are exercisable between three and 10 years from the date of the grant.

The mid-market price of the company's shares on 30 June 2000 was 126p and the range since the shares commenced trading on AIM on 25 May 2000 was 121p to 126p.

In accordance with the articles of association of the company, those directors who have joined the board since the last AGM – namely F Turner and H N P McCorkell – retire, and offer themselves for re-election. P R Lewin retires from office by rotation, and offers himself for re-election. Biographical information on all directors is given on page 9.

Substantial interests

At 24 October 2000, besides directors' interests, the company was aware of the following interests in 3.0% or more of the issued ordinary share capital:

	% of issued share capital	Ordinary shares of 1.25p each
Singer & Friedlander Investment Management Limited	12.1	851,219
Rathbone Investment Management Limited	10.4	731,708
Framlington Investment Management Limited	5.8	406,504
R J W Davis	5.7	400,000
Friends Ivory & Sime plc	5.1	356,504

Charitable donations
During the year the company made charitable donations amounting to £2,000.

Authority to allot and issue shares
At the forthcoming Annual General Meeting, the company will seek authority for the allotment and issue of up to 1.0% of the unissued share capital (ie a maximum of 729,931 shares) with disapplication of pre-emption rights.

Auditors
The auditors, Horwath Clark Whitehill, will be proposed for reappointment at the forthcoming Annual General Meeting in accordance with section 385 of the Companies Act 1985.

Corporate governance
The directors recognise the value of the Principles of Good Governance and the Code of Best Practice prepared by the Committee on Corporate Governance chaired by Sir Ronald Hempel published in June ('the Combined Code').

Whilst the company is not formally required to comply with the Combined Code, the board of directors support that code and also the recommendations of the City Group for Smaller Companies ('CISCO') in its bulletin 'The Financial Aspects of Corporate Governance: Guidance for Smaller Companies' in so far as is practicable and appropriate for a public company of this size.

Board Committees
The board has two committees, the Audit Committee and the Remuneration Committee. Both committees consist of the three non-executive directors, ie L Heyworth, F Turner, and H N P McCorkell.

The Audit Committee, chaired by H N P McCorkell, receives and reviews reports from management and the company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the company. The Audit Committee has unrestricted access to the company's auditors.

The Remuneration Committee, chaired by F Turner, reviews the scale and structure of the executive directors' remuneration and the terms of their contracts. The remuneration and terms of condition of appointment of the non-executive directors are set by the board. The remuneration committee also administers the company's share option scheme.

By order of the board
Stuart Nathan
Secretary

24 October 2000

Registered Office
28 Lancaster Road
New Barnet
Hertfordshire EN4 8AP

Directors' biographies

Laurence Heyworth, Non-executive Chairman (aged 45)
Laurence Heyworth, who has been a principal shareholder in the company since 1994, joined the board and was elected non-executive Chairman in February 2000. He has worked for Robert Fleming, now part of Chase Manhattan, since 1980 largely in equity research, specialising in the technology and telecommunications sectors. He is currently Head of European Capital Markets for Chase.

Frank Turner, Non-executive Deputy Chairman (aged 57)
Frank Turner joined the company as a non-executive director in May 2000. He was appointed Deputy Chairman in June. A fellow of the Royal Academy of Engineering, he spent 33 years at Rolls Royce plc becoming a main board director in 1988. He was Managing Director of Lucas Aerospace Limited as well as a director of Lucas Industries plc from 1992 to 1995, Chief Executive of British Midland Aviation from 1996 to 1999 as well as a main board director of British Midland plc from 1997 to 1999. He is currently chairman of Potenza Group Limited and a non-executive director of ASW Holdings plc, Wagon plc and Material Logistics plc. A former Council Member of the Society of British Aerospace Companies, he is currently a Council Member of the Royal Aeronautical Society.

Rupert Lewin, Chief Executive (aged 45)
Rupert Lewin has had overall responsibility for the direction and management of the company since 1994. Between 1977 and 1991, he worked as a research analyst for a number of City firms, including Scott, Goff Hancock & Co. (1977–1980), Moy, Vandervell & Co. (1980–82), Sheppards and Chase (1982) and Robert Fleming (1982–91). He was a director of Robert Fleming Securities Limited between 1987 and 1991 and, for part of this time, Head of Corporate Broking. Between 1992 and 1994, he was Chief Executive of SI Industries Limited.

Martin Dodge, Commercial Director (aged 38)
Martin Dodge joined the company at the same time as Rupert Lewin in 1994. He has been closely involved in all areas of the business. Since December 1998 he has been Commercial Director, with a focus on procurement and supplier relationships. From 1988 to 1994 he worked as Business Development Manager at SI Industries Limited. He joined Courage Limited (part of the Imperial Group plc) in 1985 where he progressed to the position of Promotions and Marketing Manager.

Stuart Nathan, Finance Director (aged 49)
Stuart Nathan joined the company in February 1999 as Financial Controller, subsequently becoming Finance Director. He is a Chartered Accountant and from 1974 to 1997 worked for Rank Film Distributors Limited, a subsidiary of the Rank Group plc, becoming Finance Director of that company in 1993.

Nigel McCorkell, Non-executive Director (aged 53)
Nigel McCorkell joined the company as a non-executive director in April 2000. A Chartered Accountant, he was Finance Director of Flight Refuelling plc (Cobham plc) from 1981 to 1984. After purchasing an equity interest in Meggitt plc in 1984, he was Finance Director, becoming Managing Director between 1991 and 1994. He was Deputy Chairman of Meggitt between 1994 and 1996. In 1996 he became Chairman of Cork Industries Limited until the company was acquired in 1999. He has been a non-executive director of McKechnie since 1994. He was recently appointed a non-executive director of Fastfill plc.

Statement of directors' responsibilities

The purpose of this statement is to distinguish between the directors' responsibility for the accounts and those of the auditors as stated in their report.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the company and group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to assume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

Auditors' report

We have audited the accounts on pages 11–20 which have been prepared under the historical cost convention and the accounting policies set out on page 15.

Respective responsibilities of directors and auditors

As described on this page, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts, and of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the accounts.

Unqualified opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the company and of the group as at 30 June 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

Horwath Clark Whitehill
Chartered Accountants
and Registered Auditors

24 October 2000

Consolidated profit and loss account
for the year ended 30 June 2000

(£'000)	Notes	2000	1999
Turnover	1 (c), 2	**3,249**	3,278
Operating expenses	3	**(3,188)**	(3,140)
Operating profit		**61**	138
Interest receivable	5	**13**	–
Interest payable	6	**(113)**	(107)
(Loss)/profit on ordinary activities before taxation		**(39)**	31
Taxation on (loss)/profit on ordinary activities	7	**4**	(10)
(Loss)/profit on ordinary activities after taxation		**(35)**	21
Dividends	8	**(30)**	–
(Loss)/retained profit for the year	19	**(65)**	21
Basic and fully diluted (loss)/earnings per share (pence)	9	**(0.81)**	0.52

There were no recognised gains and losses for 2000 or 1999 other than those included in the profit and loss account.

The notes on pages 15 to 20 form part of these accounts

Consolidated balance sheet
at 30 June 2000

(£'000)	Notes	2000	1999
Fixed assets			
Tangible fixed assets	11	**106**	144
Current assets			
Stocks	13	**762**	521
Debtors	14	**732**	1,103
Cash at bank and in hand		**2,238**	184
		3,732	1,808
Creditors: amounts falling due within one year	15	**(666)**	(1,833)
Net current assets/(liabilities)		**3,066**	(25)
Total assets less current liabilities		**3,172**	119
Creditors: amounts falling due after more than one year	16	**(40)**	(62)
Net assets		**3,132**	57
Capital and reserves			
Called up share capital	18	**88**	25
Share premium account	19	**3,096**	–
Profit and loss account	19	**(52)**	32
Shareholders' funds – all equity	**20**	**3,132**	57

The notes on pages 15 to 20 form part of these accounts

The accounts were approved by the board on 24 October 2000
and signed on its behalf by:

Rupert Lewin, Chief Executive

Stuart Nathan, Finance Director

Company balance sheet
at 30 June 2000

(£'000)	Notes	2000	1999
Fixed assets			
Investments	12	**83**	83
Current assets			
Debtors	14	**3,101**	–
Creditors: amounts falling due within one year	15	**–**	(68)
Net current assets/(liabilities)		**3,101**	(68)
Total assets less current liabilities		**3,184**	15
Capital and reserves			
Called up share capital	18	**88**	25
Share premium account	19	**3,096**	–
Profit and loss account	19	**–**	(10)
Shareholders' funds – all equity	20	**3,184**	15

The notes on pages 15 to 20 form part of these accounts

The accounts were approved by the board on 24 October 2000
and signed on its behalf by:

Rupert Lewin, Chief Executive

Stuart Nathan, Finance Director

Consolidated cash flow statement
for the year ended 30 June 2000

(£'000)	Notes	2000	1999
Net cash (outflow)/inflow from operating activities	22	**(264)**	371
Returns on investments and servicing of finance	21	**(112)**	(107)
Taxation		**(14)**	–
Capital expenditure and financial investment	21	**(23)**	(19)
Equity dividends paid		**(30)**	–
Cash (outflow)/inflow before use of liquid resources and financing		**(443)**	245
Financing			
Issue of shares – net of expenses	21	**3,140**	–
Repayment of debt factor		**(610)**	–
Decrease in debt		**(33)**	(39)
		2,497	(39)
Increase in cash in the period		**2,054**	206

The notes on pages 15 to 20 form part of these accounts

Notes to the financial statements
for the year ended 30 June 2000

1 Accounting policies

(A) Basis of accounting
The financial accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(B) Basis of consolidation
The group accounts consolidate the accounts of Aero Inventory plc and its subsidiary undertaking drawn up to 30 June. Intra-group transactions are eliminated on consolidation and all figures relate to external transactions only.

(C) Turnover
Turnover comprises the invoiced value of goods supplied by the group, exclusive of value added tax and trade discounts. In the event of the group entering into negotiations with a customer to purchase its inventory, no profit is recognised on subsequent sales of goods by the group to that customer from the date a formal heads of agreement is in place up to the date the inventory is purchased.

(D) Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value over their expected useful lives on the following bases:

Leasehold improvements	Over the unexpired term of the lease
Plant and machinery	33⅓%–50% per annum
Motor vehicles	30% per annum
Office equipment	15%–33⅓% per annum

(E) Goodwill
Negative goodwill arising on acquisitions in prior years, representing the deficit of the consideration paid over the aggregate of the fair values of the acquired subsidiary's identifiable assets and liabilities at the date of acquisition, is included in the profit and loss reserve account. In this respect the company has taken advantage of the transitional arrangements of Financial Reporting Standard No.10. The eliminated goodwill will be charged or credited to the profit and loss account on subsequent disposal of the related business. In future, all goodwill arising on acquisitions will be capitalised and amortised over its expected useful economic life.

(F) Leasing and hire purchase
Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

(G) Operating leases
Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged to profit and loss account as incurred.

(H) Stocks
Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

(I) Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

(J) Deferred taxation
Provision is made for taxation deferred as a result of material timing differences between the incidence of income and expenditure for taxation and accounts purposes, using the liability method, only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the near future.

2 Turnover
All turnover arose within the United Kingdom from the single activity of procurement and inventory management for the aerospace industry.

3 Operating expenses

(£'000)	2000	1999
Operating expenses comprise:		
Change in stocks for resale	**(241)**	(181)
Raw materials and consumables	**2,180**	2,374
Other operating income	**(4)**	(4)
Staff costs	**694**	530
Depreciation of tangible fixed assets		
owned by the company	**24**	26
held under finance lease and hire purchase contracts	**37**	20
Other operating charges	**498**	375
	3,188	3,140

Other operating charges include:		
Audit fees	**9**	8
Auditors' remuneration – non-audit services	**2**	1
Operating lease rentals		
hire of plant, machinery & motor vehicles	**13**	–
land and buildings	**35**	38

Additional fees paid to the auditors for non-audit services amounted to £53,000 excluding VAT, relating to work undertaken in respect of the group's share placing during the period. These fees were not charged to the profit and loss account during the period but, instead, were written off to the share premium account.

4a Staff costs

Staff costs, including directors' remuneration, were as follows:

(£'000)	2000	1999
Wages and salaries	**632**	484
Social security costs	**62**	46
	694	530

The average monthly number of employees, including directors during the year was as follows:

	2000	1999
Administration	**27**	21

4b Directors' remunerations

(£'000)	2000	1999
Aggregate emoluments	**259**	134

An analysis of directors' emoluments is set out below.

Salary and fees (£'000)	2000	1999
Executive directors		
P R Lewin	**118**	134
M P Dodge	**80**	–
S M Nathan	**41**	–
Non-executive directors		
L Heyworth	**–**	–
F Turner	**10**	–
H N P McCorkell	**10**	–
	259	134

Details of the directors' interest in the company's shares and share options are given in the directors' report.

On the flotation of the company P R Lewin's salary was adjusted to £80,000 per annum.

5 Interest receivable

(£'000)	2000	1999
Other interest receivable	**13**	–

6 Interest payable

(£'000)	2000	1999
On invoice discounting	**105**	99
On finance leases and HP contracts	**8**	8
	113	107

7 Taxation

(£'000)	2000	1999
Current year taxation:		
UK corporation tax at 20% (1999: 21%)	**(3)**	10
Prior years:		
UK corporation tax	**(1)**	–
	(4)	10

There is no material deferred tax liability.

8 Dividends

(£'000)	2000	1999
Ordinary – interim paid	**30**	–

9 (Loss)/profit per share

Basic and fully diluted loss per share has been calculated on the group's loss attributable to shareholders of £35,000 (1999: profit £21,000) and on the weighted average number of shares in issue during the financial year, which was 4,303,808 (1999: 3,977,600).

10 (Loss)/profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the profit and loss of the company is not presented as part of these accounts.

The consolidated loss for the financial year of £(35,000) (1999: profit £21,000) includes a profit of £59,000 (1999: £–) which is dealt with in the accounts of the company.

11 Tangible fixed assets

£'ooo	Leasehold improvements	Plant and machinery	Fixtures and equipment	Motor vehicles	Total
Cost					
At 1 July 1999	2	1	85	124	212
Additions	–	–	23	–	23
At 30 June 2000	**2**	**1**	**108**	**124**	**235**
Depreciation					
At 1 July 1999	1	1	39	27	68
Charge for the period	1	–	23	37	61
At 30 June 2000	**2**	**1**	**62**	**64**	**129**
Net book value					
At 30 June 2000	**–**	**–**	**46**	**60**	**106**
At 30 June 1999	1	–	46	97	144

Included above are assets at net book value held under finance leases or hire purchase contracts as follows:

(£'ooo)	2000	1999
Motor vehicles	**59**	96

12 Fixed asset investments

(£'ooo)	
At 30 June 2000 and 30 June 1999: cost	83

The company owns the whole of the issued ordinary share capital of Hibbert & Richards Limited, a company principally engaged in procurement and inventory management for the aerospace industry.

13 Stocks

These comprise goods for resale.

14 Debtors

(£'ooo)	2000	1999
Due within one year		
Group		
Trade debtors	**697**	1,090
Other debtors	**10**	–
Prepayments and accrued income	**25**	13
	732	1,103
Company		
Amounts owed by group undertakings	**3,101**	–

15 Creditors: amounts falling due within one year

(£'ooo)	2000	1999
Group		
Net obligations under finance lease and hire purchase contracts	**22**	27
Trade creditors	**568**	923
Corporation tax	**–**	12
Social security and other taxes	**33**	92
Loans from shareholders and other loans	**–**	6
Other creditors	**–**	745
Accruals and deferred income	**43**	28
	666	1,833
Company		
Amounts owed to group undertakings	**–**	67
Accruals and deferred income	**–**	1
	–	68

16 Creditors: amounts falling due after more than one year

(£'ooo)	2000	1999
Group		
Net obligations under finance lease and hire purchase contracts	**40**	62
Included within the above are amounts falling due as follows:		
In 2–5 years:		
Finance lease and hire purchase obligations	**40**	62

17 Financial instruments

The group's financial instruments comprise cash and liquid resources, a small amount of fixed interest borrowings and various items, such as trade debtors and trade creditors that arise directly from operations. Also during the year the company was involved in debt factoring. The main purpose of these financial instruments is the funding of the group's activities.

It has been the group's policy throughout the period under review that no trading in financial instruments shall be undertaken.

Significantly all the group's transactions are denominated in sterling which is its functional currency. However, certain of the group's suppliers are located in the USA and invoice the group in US dollars. The group has not to date found it necessary to hedge these transactions and is therefore exposed to a degree of risk in respect of changes in the sterling/dollar exchange rate. At 30 June 2000 the aggregate amount owed to these suppliers was approximately £280,000.

The group had no committed borrowing facilities available at 30 June 2000.

18 Called up share capital

(£'000)	2000	1999
80,000,000 ordinary shares of 1.25p (1999: 25,000 ordinary shares of £1 each)	**1,000**	25
Allotted, called up and fully paid 7,006,829 ordinary shares of 1.25p each (1999: 25,000 ordinary shares of £1 each)	**88**	25

On 5 April 2000 the authorised share capital was increased to £51,000 by the creation of 26,000 ordinary shares of £1 each. On 12 May 2000 these shares were redesignated as 4,080,000 ordinary shares of 1.25p each and the authorised share capital further increased to £1,000,000 by the creation of 75,920,000 ordinary shares of 1.25p each.

Increases in the issued share capital of the company during the year were:

- a rights issue of 6,000 ordinary shares of £1 each at par on 5 April 2000.
- a bonus issue of 19,000 ordinary shares of £1 each capitalised out of distributable reserves on 5 April 2000.
- allocations of 336 and 664 ordinary shares of £1 each issued on 5 April 2000 and 25 April 2000 respectively, at £148.80 per share and £73.53 per share.
- a placing of 2,926,829 ordinary shares of 1.25p each at 123p per share on 25 May 2000.

On 18 May 2000 the company granted 139,837 options over ordinary shares of 1.25p each to certain employees and one director. These options, granted under the company's Approved Share Option Scheme, are exercisable at a price of 123p between three and 10 years from the date of grant.

19 Reserves

(£'000)	Group	Company
Share premium account		
Premium on shares issued during the year	3,661	3,661
Expenses of share issue	(565)	(565)
At 30 June 2000	**3,096**	**3,096**
Profit and loss account		
At 1 July 1999	32	(10)
Retained (loss)/profit for the period	(65)	29
Issue of bonus shares	(19)	(19)
At 30 June 2000	**(52)**	**–**

Included in the profit and loss reserve account above is £18,000 in respect of negative goodwill arising on the acquisition of the business and net assets of Hibbert & Richards Limited in March 1994.

20 Reconciliation of movements in shareholders' funds

(£'000)	2000	1999
Group		
(Loss)/profit for the year	**(35)**	20
Dividends	**(30)**	–
	(65)	20
Shares issued during year (excluding bonus shares)	**44**	–
Share premium on shares issued (net of expenses)	**3,096**	–
	3,075	20
Opening shareholders' funds	**57**	37
Closing shareholders' funds	**3,132**	57
Company		
Profit for the year	**59**	–
Dividends	**(30)**	–
	29	–
Shares issued during year (excluding bonus shares)	**44**	–
Share premium on shares issued (net of expenses)	**3,096**	–
	3,169	–
Opening shareholders' funds	**15**	15
Closing shareholders' funds	**3,184**	15

21 Analysis of cash flows for headings netted in the cash flow statement

(£'000)	2000	1999
Returns on investments and servicing of finance		
Interest received	**2**	–
Interest paid	**(106)**	(99)
Interest element of finance lease rentals	**(8)**	(8)
Net cash outflow for returns on investments and servicing of finance	**(112)**	(107)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(23)**	(23)
Sale of tangible fixed assets	**–**	4
Net cash outflow for capital expenditure	**(23)**	(19)
Financing		
Issue of shares – net of expenses	**3,140**	–
Repayment of loans	**(6)**	(7)
Capital element of finance lease rentals	**(27)**	(32)
Repayment of debt factor	**(610)**	–
Decrease in debt	**(642)**	(39)
Net cash inflow/(outflow) from financing	**2,497**	(39)

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

(£'000)	2000	1999
Operating profit	**61**	137
Depreciation of tangible fixed assets	**61**	46
Profit on disposal of tangible fixed assets	**–**	(1)
Decrease/(increase) in debtors	**389**	(339)
(Increase) in stocks	**(241)**	(181)
(Decrease)/increase in creditors	**(534)**	709
Net cash (outflow)/inflow from operating activities	**(264)**	371

23 Reconciliation of net cash flow to movement in net cash

(£'000)	2000	1999
Increase in cash in the period	**2,054**	206
Cash outflow from decrease in debt and lease financing	**33**	39
Change in net cash resulting from cash flows	**2,087**	245
New finance leases	**–**	(87)
Movement in net cash in the period	**2,087**	158
Net cash/(debt) at 1 July 1999	**89**	(69)
Net cash at 30 June 2000	**2,176**	89

24 Analysis of net cash

(£'000)	1 July 1999	Cash flows	30 June 2000
Net cash:			
Cash at bank and in hand	184	2,054	**2,238**
Debt:			
Finance leases	(89)	27	**(62)**
Debt due within one year	(6)	6	**–**
	(95)	33	**(62)**
Net cash	89	2,087	**2,176**

25 Commitments

At 30 June 2000 there were commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
(£'000)	2000	1999	2000	1999
Expiry date:				
Within 1 year	**19**	–	**–**	–
Between 2 and 5 years	**–**	26	**8**	–

26 Related parties

The company was controlled by P R Lewin, a director of the company, until March 2000. The consolidated accounts eliminate all intra-group transactions and thus any transactions with its subsidiary undertaking Hibbert & Richards Limited are not disclosed.

During the year the group repaid a loan of £5,000 to L Heyworth, a director of the company. The amount owing to L Heyworth at 30 June 2000 was £nil (1999: £5,000).

The group also repaid a loan of £1,000 to M P Dodge, a director of the company. The amount owing to M P Dodge at 30 June 2000 was £nil (1999: £1,000).

Potenza Enterprises Limited, with which the director F Turner is connected, charged the company £10,000 in association with the flotation of the company. This amount has been charged to the share premium account. The balance owing to Potenza Enterprises Limited at 30 June 2000 was £nil (1999: £nil).

H N P McCorkell, a director of the company, charged the company £10,000 in respect of the flotation of the company and this amount has been charged to the share premium account. The balance owing to H N P McCorkell at 30 June 2000 was £10,000 (1999: £nil).

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the company will be held at The Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ in the Sopwith Room on Tuesday 21 November 2000 at 11.00am for the following purposes, with resolutions 1 to 6 being proposed as ordinary resolutions and resolution 7 as a special resolution:

Ordinary business

1. To receive and adopt the company's accounts and the reports of the directors and auditors for the period ended 30 June 2000.
2. To re-appoint H N P McCorkell a director who had been appointed since the last AGM and in accordance with the company's articles of association now retiring, be and is hereby re-elected as a director of the company.
3. To re-appoint F Turner a director who had been appointed since the last AGM and in accordance with the company's articles of association now retiring, be and is hereby re-elected as a director of the company.
4. To re-appoint P R Lewin a director who in accordance with the company's articles of association now retiring, be and is hereby re-elected as a director of the company.
5. To re-appoint Horwath Clark Whitehill as auditors of the company and to authorise the directors to fix their remuneration.

Special business

6. That the directors be and they are hereby (in substitution for any authority previously conferred on them, save to the extent that the same may have already been exercised), generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 to exercise any power of the company to allot and grant rights to subscribe for, or to convert securities into, shares of the company up to a maximum of one per cent of the nominal amount equal to the nominal amount of the authorised but unissued share capital at the date of the passing of this resolution. The authority given by this resolution shall expire on the date of the next annual general meeting of the company unless previously renewed or varied save that the directors may, notwithstanding such expiry, allot any shares, or grant any such rights, or convert any such securities under this authority in pursuance of an offer or agreement so to do made by the company before the expiry of this authority.
7. That subsections 89(1) and 90(1) to (6) inclusive of the Companies Act 1985 and any rights of pre-emption (however expressed) contained in the articles of association of the company shall not apply to any allotment of equity securities by the company. The authority given by this resolution shall expire on the date of the next annual general meeting of the company following the passing of the resolution unless previously renewed or varied save that the directors may, notwithstanding such expiry, allot any shares, or grant any such rights, or convert any such securities under this disapplication in pursuance of an offer or agreement so to do made by the company before the expiry of this disapplication.

By order of the board
Stuart Nathan
Secretary
24 October 2000

Registered Office
28 Lancaster Road
New Barnet
Hertfordshire EN4 8AP

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll to vote instead of him/her. A proxy need not be a member of the company.

2. A form of proxy is provided with this notice and instructions for its use are shown on the form. To be valid, completed forms must be received at the company's registered office not later than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.

3. The following documents are available for inspection at the registered office of the company during normal business hours on each weekday (public holidays excluded) and at the place of the annual general meeting for 15 minutes prior to and during the meeting: (a) the register of directors' interests (and their families) in shares of the company; (b) copies of directors' service contracts (other than contracts expiring or determinable by the company in less than one year).

4. The company specifies, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, that only those shareholders registered in the register of members of the company as at 6.00pm on 17 November 2000 shall be entitled to attend or vote at the general meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

Shareholder information

Financial calendar

Financial year end	30 June 2000
Preliminary results	13 September 2000
Annual report posted	27 October 2000
Annual General Meeting	21 November 2000
Interim results	March 2001
Financial year end	30 June 2001
Preliminary results	September 2001

Annual reports

Further copies of this annual report are available from the Company Secretary at the Registered Office, as are copies of the Prospectus, dated 15 May 2000, issued in connection with the company's listing on AIM.

Share price information

The company's share price is quoted daily in the *Financial Times* and the *Daily Telegraph*, in both cases in the Alternative Investment Market section.
Reuters code: AI.L
Bloomberg code: AI/ LN

Investor relations information

The company's website – www.aero-inventory.com – provides certain investor relations information, including press releases and access to up-to-date share price data.

Registrar

Enquiries about administrative matters relating to holdings of Aero Inventory plc shares should be addressed to the company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, tel: 020 8639 2000. This includes: loss of share certificates; notification of change of address; and transfer of shares to another person.

CREST

A computerised system for settling sales and purchases of shares (CREST) operates for the company's shares. It is a voluntary system which enables shareholders, if they choose, to hold and transfer shareholdings electronically rather than in paper form. Shareholders wishing to retain their paper certificates continue to be able to do so.

Further information

For further information, please contact Rupert Lewin (Chief Executive) on 020 8686 1227 or, by email, at lewin@aero-inventory.com

Summary four-year record

Year-end 30 June (£'000)	**1997**	**1998**	**1999**	**2000**
Turnover	1,665	2,447	3,278	3,249
Operating profit	122	107	138	61
Net interest	(56)	(87)	(107)	(100)
Pre-tax profit/(loss)	66	20	31	(39)
Tax	–	(2)	(10)	4
Profit/(loss) after tax	66	18	21	(35)
EPS (p)	1.66	0.45	0.52	(0.81)
Shareholders' funds	18	36	57	3,132
Employees (average)	15	17	21	27

Note: these figures have been extracted from the Prospectus, dated 15 May 2000, and this annual report.