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Company information

Directors

F Turner FR Eng (Non-executive Chairman)
 L Heyworth (Executive Deputy Chairman)
 P R Lewin (Chief Executive)
 M P Dodge MBA (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

30 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

The Royal Bank of Scotland plc
 62–63 Threadneedle Street
 London EC2R 8LA

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

Results

The results for the year ended 30 June 2001 show Aero Inventory moving into significant profitability in its first full year as a listed company.

Pre-tax profits were £505,000 (2000: £39,000 loss) on turnover of £5,110,000, up 57% on the previous year. As a board, we had no doubt that Aero Inventory's business model was inherently profitable and that profits would rise substantially as new business was secured. It is, however, gratifying to see hard evidence of this at an early stage of our development.

The Board is recommending a dividend of 1.70p (net) per share paid out of fully diluted EPS of 5.14p. The dividend is intended both as a signal of confidence and to provide an initial tangible return to those investors who have backed the company.

Asia Pacific

During the year, Aero Inventory secured a major new contract in Asia Pacific. This contract has made a substantial contribution to these results and is expected to have an even more marked impact on those for the year ending 30 June 2002.

Our e-based procurement and inventory management service – complemented by on-site representation – was designed to operate anywhere in the world. Our Asia Pacific contract has shown our systems and procedures to be up to the task. In addition, from our base in the UK, we are geographically well placed to pursue urgent customer requirements from European and US suppliers outside normal business hours in Asia Pacific.

We see considerable potential in Asia Pacific. More and more aerospace manufacturing and maintenance and repair is likely to move to Asia Pacific, to take advantage of lower labour costs and the availability of young engineering talent. Our service offering, which provides efficiency benefits, cost savings and time-zone advantages to potential customers, complements these competitive advantages.

Financing

In April 2001, Aero Inventory raised £1,556,000 (net of expenses) through a placing of new shares with existing and new institutional shareholders. I should like to thank them, and indeed shareholders generally, for their support.

In May 2001, Aero Inventory announced that it had secured a three-year £3,500,000 revolving credit facility from the Aviation Unit of The Royal Bank of Scotland, who are now our sole bankers.

Prospects

Although the aerospace sector is currently facing severe difficulties and the economic environment is deteriorating, our particularly strong new business position provides the basis for expecting substantially higher sales and profits in the current year.

There is no shortage of business opportunities as aerospace manufacturers, airlines, and maintenance and repair organisations strive to reduce costs. However, we are being selective about the opportunities we pursue in order to ensure the security of our long-term growth.

Board

Laurence Heyworth took on an executive role from July 2001. He is focusing on a number of the internal functions of the company, allowing our Chief Executive, Rupert Lewin, to focus his attention entirely upon its operations and the development of new business. Reflecting the change in his role and in accordance with good corporate governance, Mr Heyworth stepped down as non-executive Chairman in July, becoming executive Deputy Chairman.

I was very pleased to be invited to become non-executive Chairman in Mr Heyworth's stead. In my opinion, Aero Inventory is an outstanding company with exceptional growth prospects. I shall continue to play a very active role in support of Aero Inventory's strategic development and associated marketing.

Thanks

It never ceases to amaze me how much individuals can contribute to an organisation if they are properly trained, motivated and allowed to participate as members of a team in a challenging environment. I should like to thank all those at Aero Inventory who have contributed to a successful year.

Frank Turner

Non-executive Chairman
21 September 2001

Chief Executive's statement

Introduction

Aero Inventory's business is providing customised e-based procurement and inventory management solutions to companies in the aerospace industry. In essence, the company takes entire responsibility for ensuring the availability at the point of use of an agreed list of aerospace parts, in a way that is largely paperless to the customer. Aero Inventory does not charge the customer separately for this service – typically, the customer pays no more than before, while enjoying efficiency benefits and cost savings. Aero Inventory's margin comes from optimising procurement.

At the time of the company's listing on the Alternative Investment Market of the London Stock Exchange ('AIM') in May 2000, Aero Inventory had two long-term, sole supplier contracts with UK customers. Because overheads were covered by this level of business, there was obvious scope for profits to rise substantially once new customers were added. The main purpose of the listing was to provide the funds necessary to secure and finance new long-term contracts.

In November 2000, Aero Inventory secured a major new contract in Asia Pacific.

Review of results

Turnover in the year ended 30 June 2001 reflects business with our UK customers, and the build up of business in Asia Pacific from December 2000 onwards.

Total turnover for the year increased 57% to £5,110,000 (2000: £3,249,000). Turnover in the second half of the year at £3,387,000 was 97% higher than the £1,723,000 (unaudited) achieved in the first half.

Turnover of our UK business increased by 14% to £3,715,000 (2000: £3,249,000). Our Asia Pacific turnover amounted to £1,395,000 (2000: nil).

Gross margins improved year-on-year. Staff costs, the main element of operating expenses besides raw materials and consumables, rose 43% to £990,000 (2000: £694,000), which is significantly less than the growth in turnover. The average number of employees during the year was 32 (2000: 27).

Operating profit increased 670% to £470,000 (2000: £61,000). The operating margin on sales was 9.2% (2000: 1.9%).

Net interest received was £35,000 (2000: £100,000 net interest paid), reflecting cash balances for most of the year.

The pre-tax profit for the year was £505,000 (2000: £39,000 pre-tax loss). The tax charge was £136,000 (2000: £4,000 tax credit), which was 26.9% of the pre-tax figure.

On the basis of after-tax earnings of £369,000 (2000: £35,000 loss) and the weighted average number of shares in issue during the financial year of 7,137,240 (2000: 4,303,808), basic earnings per share were 5.17p (2000: 0.81p loss per share). Fully diluted earnings per share were 5.14p.

The year-end Balance Sheet shows much increased stocks at £3,710,000 (2000: £762,000). This reflects the purchase of customer inventories of parts for which Aero Inventory is responsible under long-term, sole supplier contracts, as well as the initial provisioning needs of our major new contract. Debtors have risen to £2,465,000 (2000: £732,000), reflecting the increase in business in the final months of the year. The increase in debtors is partially offset by the large increase in trade creditors to £1,868,000 (2000: £568,000).

Capital expenditure for the year was £465,000 (2000: £23,000), the majority of which relates to the refurbishment and equipping of our new main office and warehouse building.

Reflecting the rise in working capital in anticipation of increased levels of business, net cash at 30 June 2001 was £525,000 (2000: £2,176,000). This figure takes into account the proceeds of £1,556,000 (net of expenses) from an institutional placing of 700,000 new shares at 230p per share in April 2001. The shares placed represented approximately 9.1% of Aero Inventory's enlarged issued share capital.

The effective average US dollar/sterling exchange rate on transactions during the year was 1.43 (2000: 1.58). The year-end rate used for translating financial assets and liabilities was 1.41 (2000: 1.49).

Dividend

The board is recommending a final dividend of 1.70p per share. There was no interim dividend. The dividend shown in the accounts for the previous year is an interim dividend paid prior to the listing under the terms of a now-cancelled shareholders' agreement.

If approved at the annual general meeting on 30 November 2001, the final dividend will be paid on 5 December 2001 to shareholders on the Register on 2 November 2001.

New banking arrangements

Aero Inventory announced in May 2001 that it had secured a £3,500,000 revolving credit facility from The Royal Bank of Scotland. The three-year facility, which is at a margin of 1.625% above LIBOR, came into effect at the beginning of July 2001.

New building

Aero Inventory moved into a larger building at the end of March 2001, adjacent to our old premises. We have a 10-year lease on this building, which provides 10,000 square feet of office and warehouse space. The annual rental for the first five years is £4.25 per square foot. The new building has an integrated telephone and data network that has generated immediate efficiency benefits; also, the working environment is much improved. The move into the new building took place without disruption.

Since the year-end, we have taken a lease on a nearby 7,000 square foot warehouse in anticipation of further new business.

Information technology

During the year, we developed and implemented a new relational database – named ASSIST – to help manage the stock required to support our UK contracts. The other focus of our IT effort was the new building, which has provided an opportunity to consolidate and rationalise our IT and telecommunications infrastructure.

Current trading

Management accounts for the first two months of the current year show sales up 229% over the corresponding period.

Rupert Lewin

Chief Executive

21 September 2001

Directors' report

The directors present their report and the accounts for the year ended 30 June 2001.

Results and dividends

The profit for the year after taxation amounted to £369,000 (2000: £35,000 loss). The directors recommend the payment of a final dividend of 1.70p per share.

Principal activities and review of business

The principal activity of the company is that of a holding company to its subsidiary undertaking, Aero Inventory (UK) 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.

Issue of shares

Details of changes in the company's share capital are given in note 19 on page 19.

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 negotiate the terms of payment with suppliers and abide by those terms. At 30 June 2001, the period of credit taken from the Group's suppliers amounted to 60 days.

Directors and their interests

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

	Ordinary shares of 1.25p each	
	30 June 2001	30 June 2000
F Turner	101,203	89,475
L Heyworth	1,060,177	1,032,016
P R Lewin	1,541,367	1,792,598
M P Dodge	570,720	570,720
S M Nathan	11,840	11,840
H N P McCorkell	81,600	81,600

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 ten years from the date of the grant.

Private option agreements were put in place on 9 November 2000 for the benefit of F Turner. In recognition of F Turner's contribution to the business and in order to provide him with a significant financial interest in the future success of the company, the four principal shareholders in the company prior to its listing on AIM granted options to F Turner over part of their personal shareholdings.

In total, F Turner was granted options over 433,333 shares. L Heyworth granted him options over 100,000 shares at 125p (the closing middle price on 8 November 2000) and options over 94,160 shares at 250p. P R Lewin, M P Dodge and R J W Davis granted him options at 250p over 151,033, 51,821 and 36,319 shares, respectively. Other than in specified circumstances, the options will not be exercisable before three years from the date of grant, or after five years.

The mid-market price of the company's shares on 30 June 2001 was 262p and the range since 1 July 2000 was 121p to 292p.

In accordance with the articles of association of the company, M P Dodge and S M Nathan will retire by rotation at the next annual general meeting of the company and, being eligible, offer themselves for re-election.

Substantial interests

At 21 September 2001, besides directors' interests, the company was aware of the following interests in 3.0% or more of the issued share capital:

	% of issued share capital	Ordinary shares of 1.25p each
Singer & Friedlander Investment Management Limited	15.8	1,219,969
Rathbone Investment Management Limited	9.2	710,008
R J W Davis	5.2	400,000
Liontrust Asset Management Limited	4.1	319,000

Charitable donations

During the year the company made charitable donations amounting to £3,000.

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 3.5% of the unissued share capital (ie a maximum of 2,530,260 shares, which is 32.8% of the issued share capital), and for disapplication of pre-emption rights on up to 10% of the issued share capital (ie a maximum of 770,682 shares).

Option schemes

At the forthcoming annual general meeting, the company will seek authority to put in place an Enterprise Management Incentive (EMI) option scheme. At present, the company has an Approved Share Option Scheme ('Approved Scheme'), under which options may be granted over up to 5% of the company's issued share capital (on 21 September 2001 options were outstanding over 127,995 shares which is 1.7% of the company's issued share capital). The company wishes to be able to grant up to 5% of the company's issued share capital either under the Approved Scheme or under the EMI scheme. The EMI scheme will be modelled on the company's Approved Scheme. It is intended that EMI options may be granted in the 14 days after the company's annual general meeting, as well as in the 42 days after the company's final and interim results.

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 ('the Combined Code').

Whilst the company is not formally required to comply with the Combined Code, the board supports that code and also the recommendations of The Quoted Companies Alliance ('QCA') 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 its size.

Board committees

The board has two committees, the Audit Committee and the Remuneration Committee. Both committees consisted during the year of the then three non-executive directors, F Turner, H N P McCorkell and L Heyworth.

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 until November 2000 and subsequently by H N P McCorkell, reviews the scale and structure of the executive directors' remuneration and the terms of their contracts. The remuneration and terms and conditions of appointment of the non-executive directors are set by the board. The Remuneration Committee also administers the company's share option schemes.

L Heyworth resigned from both committees with effect from July 2001, as a consequence of his taking on executive responsibilities.

By order of the board

Stuart Nathan

Secretary

21 September 2001

Registered Office

30 Lancaster Road
New Barnet
Hertfordshire EN4 8AP

Directors' biographies

Frank Turner, Non-executive Chairman (aged 58)

Frank Turner joined the company as a non-executive director in May 2000. He was appointed non-executive Deputy Chairman in June 2000 and became non-executive Chairman in July 2001. A Fellow of the Royal Academy of Engineering, he spent 33 years at Rolls-Royce, 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. He was Chief Executive of British Midland Aviation Services Limited 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, a non-executive director of ASW Holdings plc, Wagon plc, Mott MacDonald Limited and Material Logistics plc, and an adviser on aerospace to UBS Capital. A former Council Member of the Society of British Aerospace Companies, he is currently a Council Member of the Royal Aeronautical Society.

Laurence Heyworth, Executive Deputy Chairman (aged 46)

Laurence Heyworth, who has been a principal shareholder in the company since 1994, joined the board as non-executive Chairman in February 2000 and became executive Deputy Chairman in July 2001. He worked for Robert Fleming, now part of JP Morgan Chase, between 1980 and 2000, largely in equity research. He specialised in the technology and telecommunications sectors, and had, at different times, management responsibility for the group's European and Global Emerging Markets research. Between 1999 and 2000, he was Head of European Equity Capital Markets for, successively, Robert Fleming and Chase.

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. (1977–80), 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 39)

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. In January 2001, he relocated to Hong Kong to oversee the company's business in Asia Pacific. 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 50)

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 Rank Group plc, becoming Finance Director in 1993.

Nigel McCorkell, Non-executive Director (aged 54)

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 is a non-executive Director of FfastFill plc and Bowman Power Limited. He is a non-executive director of St Mary's Hospital Paddington NHS Trust. He is also Chairman of the board of governors of Bournemouth University.

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 set out on pages 11–20. These accounts have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report, the Chairman's Statement and the Chief Executive's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

London
21 September 2001

Horwath Clark Whitehill
Chartered Accountants
and Registered Auditors

Consolidated profit and loss account for the year ended 30 June 2001

(£'000)	Notes	2001	2000
Turnover	1(c), 2	5,110	3,249
Operating expenses	3	(4,640)	(3,188)
Operating profit		470	61
Interest receivable	5	42	13
Interest payable	6	(7)	(113)
Profit/(loss) on ordinary activities before taxation		505	(39)
Taxation on (loss)/profit on ordinary activities	7	(136)	4
Profit/(loss) on ordinary activities after taxation for the financial year		369	(35)
Dividends	8	(131)	(30)
Retained profit/(loss) for the year	20	238	(65)
Basic earnings/(loss) per share	9	5.17	(0.81)
Fully diluted earnings/(loss) per share (pence)	9	5.14	(0.81)

There were no recognised gains and losses for 2001 or 2000 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 2001

(£'000)	Notes	2001	2000
Fixed assets			
Tangible fixed assets	11	492	106
Current assets			
Stocks	13	3,710	762
Debtors	14	2,465	732
Cash at bank and in hand		562	2,238
		6,737	3,732
Creditors: amounts falling due within one year	15	(2,256)	(666)
Net current assets		4,481	3,066
Total assets less current liabilities		4,973	3,172
Creditors: amounts falling due after more than one year	16	(23)	(40)
Provisions for liabilities and charges	17	(25)	–
Net assets		4,925	3,132
Capital and reserves			
Called up share capital	19	96	88
Share premium account	20	4,643	3,096
Profit and loss account	20	186	(52)
Shareholders' funds – all equity	21	4,925	3,132

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

The accounts were approved by the board on 21 September 2000 and signed on its behalf by:

Rupert Lewin, Chief Executive

Stuart Nathan, Finance Director

Company balance sheet at 30 June 2001

(£'000)	Notes	2001	2000
Fixed assets			
Investments	12	83	83
Current assets			
Debtors	14	4,787	3,101
		4,787	3,101
Creditors: amounts falling due within one year	15	(131)	–
Net current assets		4,656	3,101
Total assets less current liabilities		4,739	3,184
Capital and reserves			
Called up share capital	19	96	88
Share premium account	20	4,643	3,096
Profit and loss account	20	–	–
Shareholders' funds – all equity	21	4,739	3,184

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

The accounts were approved by the board on 21 September 2001
and signed on its behalf by:

Rupert Lewin, Chief Executive

Stuart Nathan, Finance Director

Consolidated cash flow statement for the year ended 30 June 2001

(£'000)	Notes	2001	2000
Net cash outflow from operating activities	23	(2,797)	(264)
Returns on investments and servicing of finance	22	45	(112)
Taxation		6	(14)
Capital expenditure	22	(461)	(23)
Equity dividends paid		–	(30)
Cash outflow before use of liquid resources and financing		(3,207)	(443)
Financing			
Issue of shares – net of expenses	22	1,556	3,140
Repayment of debt factor		–	(610)
Decrease in debt		(25)	(33)
		1,531	2,497
(Decrease)/increase in cash in the period		(1,676)	2,054

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

Notes to the financial statements for the year ended 30 June 2001

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	33 $\frac{1}{3}$ %–50% per annum
Motor vehicles	30% per annum
Office equipment	15%–33 $\frac{1}{3}$ % per annum

(e) Goodwill

Negative goodwill arising on acquisitions in accounting periods ending before 23 December 1998, 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, has been added to reserves. 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 from the single activity of procurement and inventory management for the aerospace industry.

A geographical analysis of turnover is as follows:

(£'000)	2001	2000
United Kingdom	3,715	3,249
Asia Pacific	1,395	–
	5,110	3,249

3 Operating expenses

(£'000)	2001	2000
Operating expenses comprise:		
Change in stocks for resale	(2,948)	(241)
Raw materials and consumables	5,504	2,180
Other operating income	–	(4)
Staff costs	990	694
Depreciation of tangible fixed assets		
owned by the company	47	24
held under finance lease and hire purchase contracts	30	37
Other operating charges	1,017	498
	4,640	3,188

Other operating charges include:

Audit fees	15	9
Auditors' remuneration – non-audit services	25	2
Operating lease rentals		
hire of plant, machinery & motor vehicles	8	13
land and buildings	79	35

4a Staff costs

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

(£'000)	2001	2000
Wages and salaries	910	632
Social security costs	80	62
	990	694

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

	2001	2000
Administration	32	27

4b Directors' remuneration

(£'000)	2001	2000
Aggregate emoluments	279	259

An analysis of directors' emoluments is set out below.

(£'000)	2001	2000
Executive directors		
P R Lewin	90	118
M P Dodge	74	80
S M Nathan	51	41
Non-executive directors		
F Turner	30	10
H N P McCorkell	30	10
L Heyworth	4	–
	279	259

L Heyworth became an executive director in July 2001. His new salary is £50,000 per annum, for which he will devote 145 working days per annum to the company's business.

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

5 Interest receivable

(£'000)	2001	2000
Bank interest receivable	42	13

6 Interest payable

(£'000)	2001	2000
On invoice discounting	–	105
On finance leases and HP contracts	7	8
	7	113

7 Taxation

(£'000)	2001	2000
Current year:		
UK corporation tax at 25% (2000: 20%)	110	(3)
Deferred tax	25	–
Prior years:		
UK corporation tax	1	(1)
	136	(4)

8 Dividends

(£'000)	2001	2000
Ordinary – interim paid	–	30
Ordinary – final proposed at 1.70p per share	131	–
	131	30

9 Profit/(loss) per share

Basic and fully diluted earnings per share has been calculated on the group's profit attributable to shareholders of £369,000 (2000: loss £35,000) and on the weighted average number of shares in issue during the financial year, which for the basic earnings per share was 7,137,240 (2000: 4,303,808) and for the diluted earnings per share was 7,183,446 (2000: 4,303,808).

10 Profit/(loss) 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 profit for the financial year of £369,000 (2000: loss £35,000) includes a profit of £131,000 (2000: £59,000), which is dealt with in the accounts of the company.

11 Tangible fixed assets

(£'000)	Lease- hold improve- ments	Plant and mach- inery	Fixtures and equip- ment	Motor vehicles	Total
Cost					
At 1 July 2000	2	1	108	124	235
Additions	141	–	281	43	465
Disposals	–	–	–	(22)	(22)
At 30 June 2001	143	1	389	145	678
Depreciation					
At 1 July 2000	2	1	62	64	129
Charge for the period	3	–	35	40	78
Disposals	–	–	–	(21)	(21)
At 30 June 2001	5	1	97	83	186
Net book value					
At 30 June 2001	138	–	292	62	492
At 30 June 2000	–	–	46	60	106

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

(£'000)	2001	2000
Motor vehicles	28	59

12 Fixed asset investments

(£'000)	2001	2000
At 30 June 2001 and 30 June 2000: cost		83

The company owns the whole of the issued ordinary share capital of Aero Inventory (UK) Limited, a company principally engaged in procurement and inventory management for the aerospace industry.

13 Stocks

These comprise goods for resale.

14 Debtors

(£'000)	2001	2000
Due within one year		
Group		
Trade debtors	1,859	697
Other debtors	51	10
Prepayments and accrued income	555	25
	2,465	732
Company		
Amounts owed by group undertakings	4,787	3,101

15 Creditors: amounts falling due within one year

(£'000)	2001	2000
Group		
Net obligations under finance lease and hire purchase contracts	14	22
Trade creditors	1,868	568
Corporation tax	110	–
Social security and other taxes	56	33
Dividends payable	131	–
Other creditors	8	–
Accruals and deferred income	69	43
	2,256	666
Company		
Dividends payable	131	–

16 Creditors: amounts falling due after more than one year

(£'000)	2001	2000
Group		
Net obligations under finance lease and hire purchase contracts	23	40
Included within the above are amounts falling due as follows: In 2–5 years:		
Finance lease and hire purchase obligations	23	40

17 Provisions for liabilities and charges

(£'000)	
Group	
Deferred taxation	
At 1 July 2000	–
Charged in the profit and loss account	25
At 30 June 2001	25

The deferred tax arises in respect of accelerated capital allowances.

There are no amounts of unprovided deferred tax at 30 June 2001.

18 Financial instruments

The group's financial instruments comprise cash and liquid resources, £37,000 of fixed interest borrowings in the form of finance lease and hire purchase obligations and various items, such as trade debtors and trade creditors that arise directly from operations. 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. These policies have remained unchanged from the previous year.

The main risk arising from the group's financial instruments is currency risk. Certain of the group's suppliers invoice the group in US dollars. At 30 June 2001, the aggregate amount owed to these suppliers was approximately £1,019,000 (2000: £280,000). The group's overseas customer is invoiced by the group in US dollars. At 30 June 2001, the aggregate amount owed by this customer was £687,000. The group does not currently find 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.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

Interest rate risk

Although the group had no exposure to interest rate risk during the year, as the only financial liabilities were £37,000 of fixed interest rate liabilities in the form of finance lease and hire purchase obligations (2000: £62,000), the group's post year end position has changed with the draw-down of the available facility, noted below, giving rise to financial liabilities at floating interest rates and hence a degree of interest rate risk.

The group had £562,000 of non-interest-bearing sterling financial assets at 30 June 2001 (2000: £2,153,000 sterling fixed period cash deposits at 5.9% maturing within one month and £85,000 of non-interest-bearing sterling balances). The group's policy is to invest its short-term cash in short-term deposits.

Liquidity risk

The group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Short-term flexibility is achieved in the post year end period by the revolving credit facility referred to below.

The maturity of the financial liabilities relating to finance lease and hire purchase obligations is shown in Note 16 to the accounts.

The group had committed borrowing facilities available, but not called down, at 30 June 2001 of £3,500,000 in respect of a revolving credit facility, which expire in more than two years.

19 Called up share capital

(£'000)	2001	2000
Authorised		
80,000,000 ordinary shares of 1.25p each	1,000	1,000
Allotted, called up and fully paid		
7,706,829 ordinary shares of 1.25p each (2000: 7,006,829 ordinary shares of 1.25p each)	96	88

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

- ▶ a placing of 700,000 ordinary shares of 1.25p each at 230p per share on 9 April 2001.

At 30 June 2001, there were 127,995 (2000: 139,837) options over ordinary shares of 1.25p each granted to certain employees and one director. These options, under the company's Approved Share Option Scheme, are exercisable between three and ten years from the date of grant. 115,527 options were granted to employees on 18 May 2000 and are exercisable at a price of 123p, and 12,468 options were granted on 1 September 2000 and are exercisable at a price of 124p.

20 Reserves

(£'000)	Group	Company
Share premium account		
At 1 July 2000	3,096	3,096
Premium on shares issued during the year	1,601	1,601
Expenses of share issue	(54)	(54)
At 30 June 2001	4,643	4,643
Profit and loss account		
At 1 July 2000	(52)	–
Retained profit for the year	238	–
At 30 June 2001	186	–

The balance on the profit and loss account includes £18,000 in respect of negative goodwill arising on the acquisition of the business and net assets of Aero Inventory (UK) Limited in March 1994.

21 Reconciliation of movements in shareholders' funds

(£'000)	2001	2000
Group		
Profit/(loss) for the year	369	(35)
Dividends	(131)	(30)
	238	(65)
Shares issued during year	8	44
Share premium on shares issued (net of expenses)	1,547	3,096
	1,793	3,075
Opening shareholders' funds	3,132	57
Closing shareholders' funds	4,925	3,132
Company		
Profit for the year	131	59
Dividends	(131)	(30)
	–	29
Shares issued during year	8	44
Share premium on shares issued (net of expenses)	1,547	3,096
	1,555	3,169
Opening shareholders' funds	3,184	15
Closing shareholders' funds	4,739	3,184

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

(£'000)	2001	2000
Returns on investments and servicing of finance		
Interest received	52	2
Interest paid	–	(106)
Interest element of finance lease rentals	(7)	(8)
Net cash inflow/(outflow) for returns on investments and servicing of finance	45	(112)
Capital expenditure		
Purchase of tangible fixed assets	(465)	(23)
Sale of tangible fixed assets	4	–
Net cash outflow for capital expenditure	(461)	(23)
Financing		
Issue of shares – net of expenses	1,556	3,140
Repayment of loans	–	(6)
Capital element of finance lease rentals	(25)	(27)
Repayment of debt factor	–	(610)
Decrease in debt	(25)	(643)
Net cash inflow from financing	1,531	2,497

23 Reconciliation of operating profit to net cash (outflow) from operating activities

(£'000)	2001	2000
Operating profit	470	61
Depreciation of tangible fixed assets	78	61
Profit on disposal of tangible fixed assets	(3)	–
(Increase)/decrease in debtors	(1,751)	389
(Increase) in stocks	(2,948)	(241)
Increase)/(decrease) in creditors	1,357	(534)
Net cash (outflow) from operating activities	(2,797)	(264)

24 Reconciliation of net cash flow to movement in net cash

(£'000)	2001	2000
(Decrease)/increase in cash in the period	(1,676)	2,054
Cash outflow from decrease in debt and lease financing	25	33
Change in net cash resulting from cash flows	(1,651)	2,087
Net cash at 1 July 2000	2,176	89
Net cash at 30 June 2001	525	2,176

25 Analysis of net cash

(£'000)	1 July 2000	Cash flows	30 June 2001
Cash:			
Cash at bank and in hand	2,238	(1,676)	562
Debt:			
Finance leases	(62)	25	(37)
Net cash	2,176	(1,651)	525

26 Commitments

At 30 June 2001 there were commitments under non-cancellable operating leases as follows:

(£'000)	Land and buildings		Other	
	2001	2000	2001	2000
Expiry date:				
Within 1 year	–	19	–	–
Between 2 and 5 years	35	–	8	8
In more than 5 years	88	–	–	–
Capital commitments				
Contracted for amounts at 30 June 2001			21	–

27 Related parties

During the year the company was charged £4,000 for training services provided by Potenza Limited, of which Aero Inventory's chairman F Turner is also chairman.

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 Friday 30 November 2001 at 11.00am for the following purposes, with resolutions 1 to 7 being proposed as ordinary resolutions and resolution 8 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 2001.
- 2 That a final dividend in respect of the year ended 30 June 2001 be declared and payable at the rate of 1.7 pence (net) per ordinary share on 5 December 2001 to shareholders registered at the close of business on 2 November 2001.
- 3 To re-appoint M P Dodge a director who, retiring by rotation in accordance with the company's Articles of Association, be and is hereby re-elected a director of the company.
- 4 To re-appoint S M Nathan a director who, retiring by rotation in accordance with the company's Articles of Association, be and is hereby re-elected 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 3.5 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 the directors are hereby generally and unconditionally authorised to grant rights to subscribe for shares in the company under the auspices of Share Option Agreements ('Agreements') satisfying the requirements of Schedule 14 Finance Act 2000 ('Enterprise Management Incentive Scheme') subject to the following limitation. The nominal amount of share capital over which such rights are granted together with the nominal amount of share capital of rights granted previously under such Agreements or granted or to be granted under the company's existing Share Option

Scheme approved under Schedule 9 of the Income and Corporation Taxes Act 1988 (such scheme having been adopted by the company on 5 April 2000) shall not exceed 5 per cent. of the issued share capital of the company at the date of grant of such right. Total commitments under both Agreements and the Share Option Scheme will not exceed 5 per cent. of the issued ordinary share capital of the company in the ten-year period commencing from date of grant of such right. To authorise the company's Remuneration Committee to approve amendments to the Agreements.

- 8 That sub-sections 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 the equity securities by the company up to a maximum of 10 per cent. of the nominal amount equal to the nominal amount of the issued 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 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

21 September 2001

Registered Office

30 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 28 November 2001 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 2001
Preliminary results	24 September 2001
Annual report posted by	30 October 2001
Annual General Meeting	30 November 2001
Interim results	March 2002
Financial year end	30 June 2002
Preliminary results	September 2002

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 web site – 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 that 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 Laurence Heyworth (Executive Deputy Chairman) on 020 8447 3328 or, by email, to heyworth@aero-inventory.com

Summary five-year record

Year-end 30 June (£'000)	1997	1998	1999	2000	2001
Turnover	1,665	2,447	3,278	3,249	5,110
Operating profit	122	107	138	61	470
Net interest	(56)	(87)	(107)	(100)	35
Pre-tax profit/(loss)	66	20	31	(39)	505
Tax	–	(2)	(10)	4	(136)
Profit/(loss) after tax	66	18	21	(35)	369
Fully diluted EPS (p)	1.66	0.45	0.52	(0.81)	5.14
Dividend per share (p)	–	–	–	–	1.70
Shareholders' funds	18	36	57	3,132	4,925
Employees (average)	15	17	21	27	32

Note: these figures have been extracted from the Prospectus, dated 15 May 2000, and this annual report. The dividend paid in 2000 is not shown because it was an interim dividend paid prior to the listing under the terms of a now-cancelled shareholders agreement.