Contents

Company information

Directors
F Turner FR Eng (Non-executive Chairman)
L Heyworth (Executive Deputy Chairman)
P R Lewin (Chief Executive)
M P Dodge MBA (Asia Pacific Director)
H C Bevan ACA (Finance Director)
H N P McCorkell FCA (Non-executive Director)

Secretary
H C Bevan ACA

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 Wessing
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
Evolution Beeson Gregory Limited
100 Wood Street
London EC2V 7AN

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Chairman's statement

Results

The results for the year ended 30 June 2003 – our third full year as a quoted company – show further strong growth. Turnover was up 74 per cent to £15,871,000; pre-tax profits were up by 74 per cent to £2,815,000; and fully diluted earnings per share were up by 41 per cent to 19.51p.

Although these results may appear satisfactory, they are substantially lower than we were targeting at the outset of the year. The civil aerospace industry has experienced severe difficulties over the past year as a result of the depressed global economy, the Iraq war, and, starting in late March 2003, the effects of the SARS virus. Our strong new business position meant that our turnover was relatively unaffected until the advent of SARS. However, the SARS situation particularly affected airlines in Asia Pacific – our main region of activity. Also, difficult industry conditions contributed to a delay in finalising certain new business that might otherwise have contributed to the year.

To bring home the severity of the impact of SARS on the group, it is worth pointing out that year-on-year turnover growth in the final quarter of the financial year was only 39 per cent, having been 169 per cent in the previous quarter, and that turnover in June was about half that in March. In anticipation of a reduction in turnover due to SARS, we released an Update on Prospects in May. In the event, turnover in the final weeks of the year was at the low end of our expectations.

In view of the large amount of new business in prospect for the group, we took the decision not to reduce our headcount as a short-term reaction to SARS. Needless to say, during this period of sharply reduced activity cash conservation measures were put in place.

Fortunately, as I discuss below, our business is now recovering from the effects of SARS.

Dividend

Both as a sign of confidence in the future and as an indication of the importance we attach to providing a tangible return to shareholders in the form of dividends, the Board is recommending a final dividend of 2.3p net (the same level as last year), which, with the interim dividend of 3.0p net, gives a total for the year of 5.3p net, an annual increase of 23 per cent. The final dividend will be paid on 10 December 2003 to shareholders on the register on 17 October 2003.

Contracts

The year saw the commencement, on 1 September 2002, of the much enlarged HAECO contract, which was described in last year's annual report.

On 14 May 2003, we announced a six-month consultancy agreement with the Defence Aviation Repair Agency ('DARA'), during which period DARA and Aero Inventory would examine the potential of a long-term partnering agreement. DARA is Europe's largest Government-owned facility for the repair, overhaul and maintenance of military aircraft, systems and components – including engines and avionics.

On 14 August 2003, we announced a three-year sole supplier contract with B/E Aerospace (UK) Limited, a subsidiary of B/E Aerospace, Inc, which is the world's leading manufacturer of cabin interiors for commercial passenger aircraft and business jets. This contract replaces one with C F Taylor (B/E) UK Limited, another subsidiary of B/E Aerospace, Inc, which was due to expire at the end of August.

On 3 October 2003, we announced a major new contract with SR Technics Switzerland ('SR Technics'), which is one of the world's largest aircraft maintenance and repair companies. This contract and an associated placing is the subject of a separate circular to shareholders dated 3 October 2003.

Financing during the year

In October 2002, Aero Inventory raised £5.4 million (net of expenses) through a placing of 1,818,182 new shares to finance the new HAECO contract. In June 2003, the Company raised a further £3.5 million (net of expenses) through a placing of 1,029,569 new shares in order to strengthen the balance sheet and put the Company in a strong position to develop new business opportunities. I should like to thank the existing and new shareholders who participated in these placings, and indeed shareholders generally, for their continuing support.

Following the first of these placings, The Royal Bank of Scotland plc increased the credit facilities available to the group from £5 million to £10 million.

Current trading and prospects

In the short period since the financial year-end, the group has seen a progressive recovery in its Asia Pacific turnover, with sales in July and August well up on June's depressed levels, and with a further improvement expected in September. However, because repair and maintenance activity tends to lag changes in flight activity, we do not expect our Asia Pacific business to recover fully until early in 2004, even though flight schedules are now back to normal.

During this period there has been a planned increase in overheads and certain start-up costs relating to the new contract with SR Technics, which is due to commence on 1 December 2003.

Seven months' expected contribution from the SR Technics contract and 12 (as opposed to 10) months' contribution from the enlarged HAECO contract underpin the prospect of substantial growth for Aero Inventory in the year to 30 June 2004. Furthermore, we are currently pursuing other new business opportunities that may make a contribution to the current year.

We expect the profit in the current year to be heavily weighted to the second half. This is because of the effects of SARS in the first half, the increased overheads and start-up costs referred to above, and there being only one month's contribution from the SR Technics contract in the first half.

The Board believes that the SR Technics contract further underlines the group's industry credentials as it increases our geographic spread and customer base.

Thanks

A nothing-is-too-much-trouble attitude is fundamental to the success of a service business. I should like to thank the team at Aero Inventory for their unwavering customer focus, professionalism, determination and enthusiasm.

Frank Turner
Non-executive Chairman
3 October 2003

Chief Executive's statement

Review of results

Turnover for the year increased by 74 per cent to £15,871,000 (2002: £9,111,000) as a consequence of growth in the Asia Pacific region, which with turnover of £13,037,000 accounted for 82 per cent of total turnover in the year. This performance more than offset a 4 per cent decline in our UK turnover to £2,834,000 (2002: £2,961,000) reflecting a decline in activity levels and some rationalisation at our UK customers.

The growth in our Asia Pacific turnover was almost entirely a consequence of our new, much enlarged contract with HAECO that commenced on 1 September 2003. However, as noted in the Chairman's statement, in the final quarter of the financial year our Asia Pacific business was severely affected by the SARS situation.

Operating profit was up by 83 per cent to £3,135,000 (2002: £1,716,000). There are two elements of profit for the year, together totalling £543,000, which relate to refinements in stock valuation methodology as referred to in the accounts. Net interest paid amounted to £320,000 (2002: £99,000). The pre-tax profit was £2,815,000 (2002: £1,617,000).

After a tax charge of £880,000 (2002: £490,000) – an effective rate of 31.3 per cent (2002: 30.3 per cent) – profit was £1,935,000 (2002: £1,127,000) and basic earnings per share were 19.62p, up 40 per cent on last year's figure of 14.01p. The fully diluted earnings per share were 19.51p (2002: 13.87p).

Net debt at the year-end was £2,227,000 (2002: £2,536,000) compared to shareholders' funds of £18,106,000 (2002: £7,741,000), implying gearing of 12.3 per cent (2002: 32.8 per cent).

The year-end consolidated balance sheet shows greatly increased stock levels at £19,174,000 (2002: £9,748,000). The majority of the increase in stock levels reflects substantial inventory purchases from HAECO and Cathay Pacific connected with the new HAECO contract, and purchases to provision a large number of parts subsequently added to the contract. The overall stock figure needs to be seen in relation to a full year's revenue from the new HAECO contract unaffected by SARS, and also in the context of the planned broadening of our customer base.

Debtors at the year-end were £2,528,000 (2002: £2,289,000). The 10.4 per cent increase in debtors, which is less than the growth in annual turnover, reflects the reduced level of monthly revenues in the final months of the year.

We have funded our increased working capital through two placings of new shares which together raised £8.9 million (net of expenses), and by drawing down as necessary on our banking facilities.

The average US dollar/sterling exchange rate during the year was 1.56 (2002: 1.44) and the rate used for translating year-end financial assets and liabilities was 1.65 (2002: 1.52).

Capital expenditure

Capital expenditure in the year of £792,000 (2002: £206,000) mainly related to the creation and equipping of further office space in our headquarters building, and to the refurbishment and equipping of our warehouse.

During the year, Aero Inventory took a lease on a further 7,700 square foot office building to house various support functions, including Finance and Information Technology support. The Company's three buildings are close to one another and linked by high-capacity telecommunications cables.

Quality

Quality is fundamental to Aero Inventory, given the overriding importance of safety in aerospace. I am pleased to report that during the year the business gained ISO 9001:2000 quality certification, the new quality benchmark.

Information technology

During the year, Aero Inventory has continued to invest in database development and, in particular, in a new system – which we have named 'Parts Central' – one of whose functions is to obviate the otherwise recurrent and time-consuming need to 'clean' customer and supplier part numbers prior to data processing.

Also during the year we activated a redesigned version of our website (www.aero-inventory.com). In addition to its marketing and investor relations functions, the website allows a customer to view and download pricing, usage and inventory data, and other specially requested data.

Business strategy

Our strategy is unchanged. It is to continue the rapid growth of the business by securing further profitable long-term, sole-supplier contracts. We believe there are opportunities for the group among aerospace manufacturers, airlines, aircraft maintenance and repair companies, and government agencies. Aero Inventory will seek to secure further world-class customers who will benefit operationally and financially from its service and who are prepared for the group to achieve its financial returns subject to meeting cost and performance targets.

A year ago, following the announcement of the new HAECO contract, we highlighted the significant opportunity for Aero Inventory to establish itself as an e-based service provider in the field of parts required for the maintenance and repair of rotables (ie regularly overhauled removable aircraft components). This opportunity is now enhanced by our major new contract with SR Technics. As we gain further customers, we believe that we shall enjoy valuable economies of scale and, in particular, the operational and financial benefits of pooling inventory where appropriate.

We expect Asia Pacific to remain an important geographical focus for the group in the near term because of the growth potential of the region's aerospace market and the cost advantages enjoyed by the region's repair and maintenance organisations. Following the SR Technics contract, we expect Europe to become our other main geographical focus in the near term, since we believe consolidation among airlines and repair and maintenance organisations is likely to create opportunities for us as companies seek to gain cost and efficiency advantages from outsourcing parts procurement and management.

Rupert Lewin
Chief Executive
3 October 2003

Directors' report

The directors present their report and the accounts for the year ended 30 June 2003.

Results and dividends

The profit for the year after taxation amounted to £1,935,000 (2002: £1,127,000). The directors recommend the payment of a final dividend of 2.3p net per share, payable on 10 December 2003 to shareholders on the register on 17 October 2003, making a total for the year of 5.3p net per share (2002: 4.3p).

Principal activities and review of business

The principal activity of the company is that of a holding company to its subsidiary undertakings. Aero Inventory (UK) Limited is primarily engaged in procurement and inventory management for the aerospace industry. Aero Inventory (Hong Kong) Limited is engaged in customer support activities relating to procurement and inventory management services 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 18 on page 20.

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 2003, the average period of credit taken from the group's suppliers amounted to 37 days (2002: 52 days).

Post balance sheet event

On 3 October 2003, the company announced a major new contract with SR Technics. On the same date the company entered into an underwriting agreement with Evolution Beeson Gregory Limited under which Evolution Beeson Gregory agreed to underwrite an issue of 4,225,000 shares of the company at a price of 375p per share subject to certain conditions. The net proceeds to the company are expected to amount to approximately £15.0 million. Further details of the placing are set out in a separate circular to shareholders dated 3 October 2003.

Substantial interests

At 2 October 2003, 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	10.09	1,150,043
Scottish Widows Investment Partnership Limited	4.12	469,200
R W J Davis	3.82	435,000

The mid-market price of the company's shares on 30 June 2003 was 367.5p and the range since 1 July 2003 was 330p to 426.5p.

Charitable donations

During the year the company made charitable donations amounting to £1,500.

Authority to allot and issue shares

At the forthcoming Annual General Meeting, the company will seek authority for the allotment and issue of shares equal to 33.3% of the issued share capital, and for disapplication of pre-emption rights on new shares equal to 10% of the issued share capital. Taking into consideration the new shares which may be issued in connection with the placing referred to above under 'Post balance sheet event' the maximum number of shares to which the authority would apply is 5,207,200 and the number of shares for which pre-emption rights might be disapplied is 1,562,181.

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 'Guidance for Smaller Quoted Companies' provided by the Quoted Companies Alliance (QCA) in so far as is practicable and appropriate for a public company of its size.

Board committees

The board has three committees, the Audit Committee, the Nominations Committee, and the Remuneration Committee. The Audit and Remuneration committees consist of the two non-executive directors, F Turner and H N P McCorkell. The Nominations Committee consists of the two non-executive directors, together with L Heyworth and P R Lewin.

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 Nominations Committee, chaired by F Turner, nominates candidates for the approval of the board and makes recommendations to the board regarding its composition and balance.

The Remuneration Committee consists of the company's two non-executive directors and is chaired by H N P McCorkell. Neither of the non-executive directors has day-to-day involvement in running the business.

Remuneration policy

Executive remuneration packages are designed to motivate and retain directors of the calibre necessary to continue the development of the company's business. Each executive director's salary is reviewed annually by the Remuneration Committee. In deciding appropriate levels of remuneration the Remuneration Committee has regard to rates of pay for similar jobs in comparable companies as well as internal factors such as performance. The remuneration and terms and conditions of appointment of the non-executive directors are set by the board.

Service agreements

Service agreements and letters of appointment have been entered into with all the directors of the company. No notice period is longer than 12 months. The service agreements with the executive directors are in line with the guidance of the Combined Code.

Directors' remuneration

An analysis of directors' emoluments for the year ended 30 June 2003 is set out below.

(£'000)	**2003**	**2002**
Executive directors		
L Heyworth	**78**	55
P R Lewin	**113**	78
M P Dodge[1]	**119**	119
H C Bevan[2]	**83**	15
S M Nathan[3]	**–**	44
Non-executive directors		
F Turner	**60**	40
H N P McCorkell	**30**	30
	483	381

[1] Included in the emoluments of M P Dodge shown above is £31,500 (2002: £33,900) in respect of the costs of his accommodation in Hong Kong.
[2] appointed 8 April 2002
[3] resigned 8 April 2002

The company does not currently have bonus or pension schemes in place for directors.

Share options

F Turner has options over 433,333 shares. These are a consequence of private option agreements put in place on 9 November 2000 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 of the company prior to its listing on AIM granted options over their personal shareholdings. L Heyworth granted 100,000 options at 125p and 94,160 options at 250p. P R Lewin, M P Dodge and R W J Davis granted 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.

H C Bevan has options over a total of 53,418 ordinary shares. Options over 25,641 ordinary shares were granted on 9 April 2002 at an exercise price of 390p and options over 27,777 ordinary shares were granted on 27 November 2002 at an exercise price of 450p. The options are exercisable between three and 10 years from the date of grant.

In view of their large personal shareholdings, L Heyworth, P R Lewin and MP Dodge have to date declined the award of options.

The company's policy on options is to ensure that, through successive awards, relevant directors have a meaningful exposure to the equity of the company.

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 2003	**30 June 2002**
F Turner	112,206	106,206
L Heyworth	812,008	1,082,677
P R Lewin	1,156,025	1,541,367
M P Dodge	428,040	570,720
H C Bevan	42,520	32,520
H N P McCorkell	85,200	81,600

As part of the share placing in October 2002, L Heyworth, P R Lewin and M P Dodge, all founder shareholders of the company, disposed of 270,669, 385,342, and 142,680 shares respectively, which was 25% of their respective interests. They undertook in October 2002 not to dispose of any further shares for a period of at least 24 months, save as agreed, for instance as may be necessary to satisfy the private option agreements with F Turner referred to above.

Reappointment of directors

In accordance with the Articles of Association of the company, F Turner, P R Lewin and H N P McCorkell will retire by rotation at the next Annual General Meeting of the company and, being eligible, offer themselves for re-election.

By order of the board

Hugh Bevan
Secretary

3 October 2003

Registered Office
30 Lancaster Road
New Barnet
Hertfordshire EN4 8AP

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 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company or the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and 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 group and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The maintenance and integrity of the Aero Inventory plc website is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Independent auditors' report

We have audited the financial statements of Aero Inventory plc for the year ended 30 June 2003 set out on pages 13–22. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements 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 financial statements, 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 and other members of the group is not disclosed.

We read the Chairman's Statement, Chief Executive's Statement and the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Unqualified opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the company and of the group as at 30 June 2003 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.

Horwath Clark Whitehill
Chartered Accountants
and Registered Auditors

3 October 2003

Consolidated profit and loss account
for the year ended 30 June 2003

(£'000)	Notes	2003	2002
Turnover	2	**15,871**	9,111
Operating expenses	3	**(12,736)**	(7,395)
Operating profit		**3,135**	1,716
Interest receivable	5	**9**	6
Interest payable	6	**(329)**	(105)
Profit on ordinary activities before taxation		**2,815**	1,617
Taxation on profit on ordinary activities	7	**(880)**	(490)
Profit on ordinary activities after taxation		**1,935**	1,127
Dividends	8	**(571)**	(365)
Retained profit for the financial year	19	**1,364**	762
Basic earnings per share (pence)	9	**19.62**	14.01
Fully diluted earnings per share (pence)	9	**19.51**	13.87

There were no recognised gains and losses for 2003 or 2002 other than those included in the profit and loss account.

Turnover and operating profit have been generated from continuing operations.

The notes on pages 17–22 form part of these financial statements.

Consolidated balance sheet
at 30 June 2003

(£'000)	Notes	2003	2002
Fixed assets			
Tangible fixed assets	11	**1,075**	520
Current assets			
Stocks	13	**19,174**	9,748
Debtors	14	**2,528**	2,289
		21,702	12,037
Creditors: amounts falling due within one year	15	**(4,641)**	(4,789)
Net current assets		**17,061**	7,248
Total assets less current liabilities		**18,136**	7,768
Provisions for liabilities and charges	16	**(30)**	(27)
Net assets		**18,106**	7,741
Capital and reserves			
Called up share capital	18	**142**	106
Share premium account	19	**15,656**	6,687
Profit and loss account	19	**2,308**	948
Shareholders' funds – all equity	20	**18,106**	7,741

The notes on pages 17–22 form part of these financial statements.

The accounts were approved by the board on 3 October 2003
and signed on its behalf by:

Rupert Lewin, Chief Executive

Hugh Bevan, Finance Director

Company balance sheet
at 30 June 2003

(£'000)	Notes	2003	2002
Fixed assets			
Investments	12	**83**	83
Current assets			
Debtors	14	**15,977**	7,033
Creditors: amounts falling due within one year	15	**(262)**	(323)
Net current assets		**15,715**	6,710
Total assets less current liabilities		**15,798**	6,793
Capital and reserves			
Called up share capital	18	**142**	106
Share premium account	19	**15,656**	6,687
Profit and loss account	19	**–**	–
Shareholders' funds – all equity	20	**15,798**	6,793

The notes on pages 17–22 form part of these financial statements.

The accounts were approved by the board on 3 October 2003
and signed on its behalf by:

Rupert Lewin, Chief Executive

Hugh Bevan, Finance Director

Consolidated cash flow statement
for the year ended 30 June 2003

(£'000)	Notes	2003	2002
Net cash outflow from operating activities	21	**(5,855)**	(4,428)
Returns on investments and servicing of finance	22	**(320)**	(99)
Taxation		**(1,225)**	(105)
Capital expenditure and financial investment	22	**(792)**	(182)
Equity dividends paid		**(504)**	(301)
Cash outflow before financing		**(8,696)**	(5,115)
Financing			
Issue of shares – net of expenses	22	**9,005**	2,054
Decrease in debt	22	**(23)**	(14)
	22	**8,982**	2,040
Increase/(decrease) in cash in the year		**286**	(3,075)

The notes on pages 17–22 form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2003

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 undertakings drawn up to 30 June 2003 and 2002 respectively. 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.

(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 tangible 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 previous 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) Finance leases 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 the profit and loss account as incurred.

(h) Stocks
Stocks are valued at the lower of cost (including appropriate overheads) and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost is calculated by averaging purchase prices and by reference to supplier list prices adjusted to reflect discounts obtained where appropriate. The company regards stock as slow-moving where it is unlikely to be sold within the periods of its various long-term inventory management contracts.

The directors have refined their estimation techniques used in arriving at the cost of stock. These principally relate to procurement costs being included within overheads attributed to stock and the application of particular discount rates in arriving at the average unit price of individual stock lines. The effect of these changes in estimation techniques on the profit for the year is shown in note 3.

(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
Full provision is made, at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted at the balance sheet date, in respect of timing differences which have arisen but not reversed at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the accounts. Deferred tax is measured on a non-discounted basis.

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)	2003	2002
United Kingdom	**2,834**	2,961
Asia Pacific	**13,037**	6,150
	15,871	9,111

3 Operating expenses

(£'000)	2003	2002
Operating expenses comprise:		
Change in stocks for resale[1]	**(9,426)**	(6,038)
Raw materials and consumables	**17,964**	10,497
Staff costs	**2,205**	1,342
Depreciation of tangible fixed assets owned by the group	**237**	159
Other operating charges	**1,756**	1,435
	12,736	7,395

[1] As explained in note 1h, refinements to the estimation techniques used in the calculation of changes in stocks for resale have resulted in increases in profit for the year. Of these increases £355,000 is in respect of costs included in overheads attributed to stock and £188,000 is in respect of the application of particular discount rates in arriving at the average unit prices of individual stock lines.

(£'000)	2003	2002
Other operating charges include:		
Audit fees	**55**	25
Auditors' remuneration – non-audit services	**53**	42
Operating lease rentals land and buildings	**152**	150

4a Staff costs

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

(£'000)	2003	2002
Wages and salaries	**2,087**	1,224
Social security costs	**118**	118
	2,205	1,342

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

	2003	2002
Administration	**78**	45

4b Directors' remuneration

(£'000)	2003	2002
Aggregate emoluments	**483**	381

An analysis of directors' emoluments is set out below.

(£'000)	2003	2002
Executive directors		
L Heyworth	**78**	55
P R Lewin	**113**	78
M P Dodge[1]	**119**	119
H C Bevan[2]	**83**	15
S M Nathan[3]	**–**	44
Non-executive directors		
F Turner	**60**	40
H N P McCorkell	**30**	30
	483	381

[1] Included in the emoluments of M P Dodge shown above is £31,500 (2002: £33,900) in respect of the costs of his accommodation in Hong Kong.
[2] appointed 8 April 2002
[3] resigned 8 April 2002

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

5 Interest receivable

(£'000)	2003	2002
Bank interest receivable	**9**	6

6 Interest payable

(£'000)	2003	2002
Interest on bank facilities	**329**	102
On finance leases and hire purchase contracts	**–**	3
	329	105

7a Tax on profit on ordinary activities: analysis of tax charge

(£'000)	2003	2002
UK corporation tax at 30% (2002: 30%)	**874**	494
Adjustment re previous year	**2**	(6)
	876	488
Deferred tax	**3**	2
Adjustment re previous year	**1**	–
	880	490

7b Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below.

(£'000)	2003	2002
Profit on ordinary activities before taxation	**2,815**	1,617
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	**845**	485
Effects of:		
Permanent differences	**32**	11
Other items	**(1)**	(8)
	876	488

8 Dividends

(£'000)	2003	2002
Ordinary – interim paid at 3.0p per share (2002: 2.0p per share)	**309**	170
Ordinary – final proposed at 2.3p per share (2002: 2.3p per share)	**262**	195
	571	365

9 Earnings per share

Basic and fully diluted earnings per share have been calculated on the group's profit attributable to shareholders of £1,935,000 (2002: £1,127,000) and on the weighted average number of shares in issue during the financial year, which for the basic earnings per share was 9,863,203 (2002: 8,036,216) and for the fully diluted earnings per share was 9,918,270 (2002: 8,119,891).

10 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 profit for the financial year of £1,935,000 (2002: £1,127,000) includes a profit of £571,000 (2002: £365,000) which is dealt with in the accounts of the company.

11 Tangible fixed assets

(£'000)	Leasehold improve-ments	Fixtures and equipment	Motor vehicles	Total
Cost				
At 1 July 2002	201	470	149	820
Additions	–	744	48	792
At 30 June 2003	**201**	**1,214**	**197**	**1,612**
Depreciation				
At 1 July 2002	23	183	94	300
Charge for the period	20	186	31	237
At 30 June 2003	**43**	**369**	**125**	**537**
Net book value				
At 30 June 2003	**158**	**845**	**72**	**1,075**
At 30 June 2002	178	287	55	520

12 Fixed asset investments

(£'000)	
At 30 June 2003 and 30 June 2002: cost	**83**

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

Aero Inventory (UK) Limited owns the entire issued ordinary share capital of Aero Inventory (Hong Kong) Limited, a company principally engaged in customer support activities for procurement and inventory management services for the aerospace industry.

13 Stocks

(£'000)	2003	2002
Goods for resale	**19,174**	9,748

14 Debtors: amounts falling due within one year

(£'000)	2003	2002
Group		
Trade debtors	**1,781**	1,622
Other debtors	**34**	128
Prepayments and accrued income	**713**	539
	2,528	2,289
Company		
Other debtors	**–**	128
Amounts owed by group undertakings	**15,977**	6,905
	15,977	7,033

15 Creditors: amounts falling due within one year

(£'000)	2003	2002
Group		
Bank facility used (net of cash at bank and in hand)[1]	**2,227**	2,513
Trade creditors	**1,712**	1,066
Corporation tax	**180**	494
Social security and other taxes	**99**	140
Proposed dividends	**262**	195
Other creditors	**44**	137
Accruals and deferred income	**76**	145
Accrued interest payable	**41**	76
Net obligations under finance lease and hire purchase contracts	**–**	23
	4,641	4,789
Company		
Other creditors	**–**	128
Proposed dividends	**262**	195
	262	323

[1] The bank liability is secured by a fixed and floating charge over the assets of the group.

16 Provisions for liabilities and charges

(£'000)	
Group	
Deferred taxation	
At 1 July 2002	**27**
Charged in the profit and loss account	**3**
At 30 June 2003	**30**

The deferred tax arises in respect of accelerated capital allowances.

17 Financial instruments

The group's financial instruments comprise cash and liquid resources, an available revolving credit facility of £9,500,000 (£5,000,000 in 2002) 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.

Interest rate risk

The group's credit facilities bear interest at variable rates based on relevant bank base rates and the London Interbank Market.

Liquidity risk

Group policy is to maintain the available credit facility to meet its anticipated requirements over a two to three year period. The facility, which is available until 31 December 2005, and may be extended thereafter, may be drawn in advances which may be of 1, 2, 3 or 6 months in duration.

Exchange rate risk

A significant percentage of the group's purchasing transactions are denominated in US dollars rather than sterling, which is its functional currency. The group has not hedged these transactions, principally as a significant percentage of sales are also denominated in US dollars. The group is therefore exposed to a degree of risk in respect of changes in the sterling/dollar exchange rate. At 30 June 2003, the aggregate amount owed to these suppliers was approximately £973,137 (2002: £539,000).

18 Called up share capital

(£'000)	2003	2002
Authorised		
80,000,000 ordinary shares of 1.25p each	**1,000**	1,000
Allotted, called up and fully paid		
11,378,779 ordinary shares of 1.25p each (2002: 8,477,511 ordinary shares of 1.25p each)	**142**	106

1,818,182 ordinary shares of 1.25p each (nominal value: £22,727) were issued on 7 October 2002 at 330 pence per share. 1,029,569 ordinary shares of 1.25p each (nominal value: £12,870) were issued on 10 June 2003 at 350 pence per share. 26,467 options over ordinary shares of 1.25p each (nominal value: £331) were exercised on 19 May 2003 at 123 pence per share. 6,790 options over ordinary shares of 1.25p each (nominal value: £85) were exercised on 21 May 2003 at 123 pence per share. 4,675 options over ordinary shares of 1.25p each (nominal value: £58) were exercised on 11 June 2003 at 123 pence per share. 15,585 options over ordinary shares of 1.25p each (nominal value: £195) were exercised on 13 June 2003 at 123 pence per share.

At 30 June 2003, there were 284,957 (2002: 222,499) options outstanding over ordinary shares of 1.25p each granted to certain employees and one director. These options, under the company's Approved Share Option Scheme, Enterprise Management Incentive Scheme or Unapproved Share Option Scheme, are exercisable between three and ten years from the date of the grant.

Date granted	Options outstanding	Exercise price (p)
18 May 2000	50,789	123
24 September 2001	29,807	186.5
3 December 2001	4,193	240
19 March 2002	10,000	363.5
9 April 2002	25,641	390
26 April 2002	42,250	403
27 November 2002	27,777	450
30 April 2003	94,500	360

19 Reserves

(£'000)	Group	Company
Share premium account		
At 1 July 2002	**6,687**	6,687
Premium on shares issued during the year	**9,633**	9,633
Expenses of share issue	**(664)**	(664)
At 30 June 2003	**15,656**	15,656
Profit and loss account		
At 1 July 2002	**948**	–
Retained profit for the year	**1,364**	–
Losses from Aero Inventory (Hong Kong) Limited not consolidated last year	**(4)**	–
At 30 June 2003	**2,308**	–

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 Aero Inventory (UK) Limited in March 1994.

Aero Inventory (HK) Limited was not consolidated last year because it was immaterial to the financial statements.

20 Reconciliation of movements in shareholders' funds

(£'000)	2003	2002
Group		
Profit for the year	**1,935**	1,127
Losses from Aero Inventory (Hong Kong) Limited not consolidated last year	**(4)**	–
Dividends	**(571)**	(365)
	1,360	762
Shares issued during year	**36**	10
Share premium on shares issued (net of expenses)	**8,969**	2,044
	10,365	2,816
Opening shareholders' funds	**7,741**	4,925
Closing shareholders' funds	**18,106**	7,741
Company		
Profit for the year	**571**	365
Dividends	**(571)**	(365)
	–	–
Shares issued during year	**36**	10
Share premium on shares issued (net of expenses)	**8,969**	2,044
	9,005	2,054
Opening shareholders' funds	**6,793**	4,739
Closing shareholders' funds	**15,798**	6,793

21 Reconciliation of operating profit to net cash outflow from operating activities

(£'000)	2003	2002
Operating profit	**3,135**	1,716
Depreciation of tangible fixed assets	**237**	159
Profit on disposal of tangible fixed assets	**–**	(4)
(Increase)/decrease in debtors	**(205)**	176
Increase in stocks	**(9,426)**	(6,038)
Increase/(decrease) in creditors	**404**	(437)
Net cash outflow from operating activities	**(5,855)**	(4,428)

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

(£'000)	2003	2002
Returns on investments and servicing of finance		
Interest received	**9**	6
Interest element of finance lease rentals	**–**	(3)
Interest on bank facility	**(329)**	(102)
Net cash outflow for returns on investments and servicing of finance	**(320)**	(99)
Capital expenditure		
Purchase of tangible fixed assets	**(792)**	(206)
Sale of tangible fixed assets	**–**	24
Net cash outflow for capital expenditure	**(792)**	(182)
Financing		
Issue of shares – net of expenses	**9,005**	2,054
Decrease in debt		
Capital element of finance lease rentals	**(23)**	(14)
Net cash inflow from financing	**8,982**	2,040

23 Reconciliation of net cash flow to movement in net debt

(£'000)	2003	2002
Increase/(decrease) in cash in the year	**286**	(3,075)
Cash flow from decrease in debt and lease financing	**23**	14
Change in net cash resulting from cash flows	**309**	(3,061)
Net debt at 1 July 2002	**(2,536)**	525
Net debt at 30 June 2003	**(2,227)**	(2,536)

24 Analysis of net debt

(£'000)	1 July 2002	Cash flows	30 June 2003
Bank facility	(2,513)	286	**(2,227)**
Finance leases	(23)	23	**–**
Net debt	(2,536)	309	**(2,227)**

25 Operating lease commitments

At 30 June 2003 there were annual commitments under non-cancellable operating leases, including property leases, as follows:

	Land and buildings		Other	
(£'000)	2003	2002	2003	2002
Expiry date:				
Within 1 year	**–**	–	**–**	8
Between 2 and 5 years	**13**	35	**–**	–
In more than 5 years	**156**	139	**–**	–
	169	174	**–**	8

26 Post balance sheet event

On 3 October 2003, the company entered into a placing agreement with Evolution Beeson Gregory Limited under which Evolution Beeson Gregory agreed to procure subscribers for 4,225,000 shares of the company at a price of 375p per share subject to certain conditions. In the event that there are no subscribers for those shares Evolution Beeson Gregory will subscribe for them as principal. The net proceeds to the company are expected to amount to £15.0 million. Further details of the placing are set out in a separate circular to shareholders dated 3 October 2003.

27 Related party transaction

Rupert Lewin Racing Limited (of which P R Lewin is a director and shareholder) entered into a licence agreement with Aero Inventory (UK) Limited on 1 December 2002 in respect of the use of the warehouse space as licensee at Unit A, Lancaster Road Industrial Estate, New Barnet, Hertfordshire, for the storage and repair of private motor vehicles. During the period of the licence Rupert Lewin Racing Limited agreed to pay Aero Inventory (UK) Limited a fee of £1,000 per month (inclusive of VAT).

Directors' biographies

Frank Turner, Non-executive Chairman (aged 60)
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 SR Technics (Holdings) and Potenza Group Limited, a non-executive director of Mott MacDonald Limited, Mettis Group Limited and Symmetry Medical Inc, and an adviser on aerospace to Bridgepoint Capital, Star Capital Partners, IRRfc, and 3i. A former Council Member of the Society of British Aerospace Companies, he is currently a Council Member of the Royal Aeronautical Society and a Council Member of the International Federation of Airworthiness.

Laurence Heyworth, Executive Deputy Chairman (aged 48)
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 part-time 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 47)
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, Asia Pacific Director (aged 41)
Martin Dodge joined the company at the same time as Rupert Lewin in 1994. He was Commercial Director between December 1998 and August 2002, when he became Asia Pacific Director to reflect his position as Managing Director of Aero Inventory (Hong Kong) Limited. 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.

Hugh Bevan, Finance Director (aged 42)
Hugh Bevan, a Chartered Accountant, joined the company in April 2002. Between 1987 and 2001 he worked for Robert Fleming and Jardine Fleming, subsequently acquired by JP Morgan Chase. During this time, he worked mainly in the Hong Kong and London offices on fund raising and advisory transactions. In 1997, he became Chief Operating Officer of Jardine Fleming's Asian Corporate Finance business, and in 1999 returned from Hong Kong to London as Head of Equity Capital Markets Execution.

Nigel McCorkell, Non-executive Director (aged 56)
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.

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 on Wednesday 26 November 2003 at 11.00 am, to consider and, if thought fit, pass the following resolutions of which resolutions numbered 1 to 7 inclusive will be proposed as ordinary resolutions and resolutions numbered 8 and 9 inclusive will be proposed as special resolutions:

Ordinary business

1 To receive and adopt the company's accounts for the year ended 30 June 2003 together with the reports of the directors and the auditors thereon.

2 To declare a final dividend in respect of the year ended 30 June 2003 at the rate of 2.3 pence (net) per ordinary share to be paid on 10 December 2003 to shareholders on the register at the close of business on 17 October 2003

3 To re-elect P R Lewin, who retires by rotation in accordance with the company's articles of association, as a director of the company.

4 To re-elect H N P McCorkell, who retires by rotation in accordance with the company's articles of association, as a director of the company.

5 To re-elect F Turner, who retires by rotation in accordance with the company's articles of association, as a director of the company.

6 To re-appoint Horwath Clark Whitehill as auditors of the company and to authorise the directors to determine their remuneration.

7 That in substitution for any existing authorities:

(a) in accordance with Section 80 of the Companies Act 1985 (the 'Act'), the directors be and generally are hereby unconditionally authorised to exercise all the powers of the company to allot relevant securities within the terms of the following restrictions and provisions, namely:

(i) this authority shall expire (unless previously renewed or revoked by the company in general meeting) on the earlier of the date of the next Annual General Meeting of the company following the date of the passing of this Resolution and the date which is 15 months after the date of the passing of this Resolution; and

(ii) this authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount of £65,090; and

(b) for the purpose of sub-paragraph 7(a) above:

(i) the said power shall allow and enable the directors to make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired; and

(ii) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meaning herein.

8 That in substitution for any existing authorities:

(a) conditionally upon the passing of Resolution 7 above and in accordance with Section 95 of the Act, the directors be and are hereby given power to allot equity securities pursuant to the authority conferred by Resolution 7 above as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that the power hereby granted shall be limited to:

(i) the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of shares in the company and other persons entitled to participate therein, in the proportion (as nearly may be) to the shareholdings of such members (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with fractional entitlements or the regulations of any recognised regulatory body in any territory;

(ii) the grant of options to subscribe for shares in the company under the terms of any share option schemes adopted or operated by the company up to a maximum aggregate nominal amount equal to 10 per cent of the nominal amount of the issued share capital of the company as at the date of grant of such option(s), and the allotment of such shares pursuant to the exercise of options granted; and

(iii) the allotment of equity securities, otherwise than pursuant to sub-paragraphs 8(a)(i) and 8(a)(ii) above, up to an aggregate nominal amount of £19,527;

(b) the power hereby granted shall expire on the earlier of the date of the next Annual General Meeting of the company following the date of the passing of this Resolution and the date which is 15 months after the date of the passing of this Resolution, save that the said power shall allow and enable the directors before this power expires or is replaced, to make an offer or agreement which would or might require equity securities to be allotted pursuant to such offer or agreement as if the power conferred herein had not expired, or, as the case may be, been replaced; and

(c) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings herein.

Special business

9 That the articles of association of the company be and are amended so that article 16.3 reads as follows:

'Directors' fees
16.3 The fees payable to directors in their capacities as directors shall from time to time be determined by the Board.'

By order of the board

Hugh Bevan	**Registered Office**
Secretary	30 Lancaster Road
	New Barnet
3 October 2003	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 use are shown on the form. To be valid, completed forms must be received at the office of the company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending 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); and

(c) the Articles of Association of the company.

4. The company specifies, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, that only those shareholders registered in the register of members of the company at 11.00 am on 24 November 2003 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register of members 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 2003
Preliminary results	3 October 2003
Extraordinary General Meeting	27 October 2003
Annual General Meeting	26 November 2003
Interim results	March 2004
Financial year end	30 June 2004
Preliminary results	September 2004

Annual reports
Further copies of this annual report are available from the Company Secretary at the Registered Office.

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, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, tel: 0870 162 3100 or, from outside the United Kingdom, +44 (0)20 8639 2157. 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 +44 (0)20 8447 3328 or, by email, at laurence.heyworth@aero-inventory.com

Summary five-year record

Year end: 30 June (£'000)	**1999**	**2000**	**2001**	**2002**	**2003**
Turnover	3,278	3,249	5,110	9,111	15,871
Operating profit	138	61	470	1,716	3,135
Net interest	(107)	(100)	35	(99)	(320)
Pre-tax profit/(loss)	31	(39)	505	1,617	2,815
Tax	(10)	4	(136)	(490)	(880)
Profit/(loss) after tax	21	(35)	369	1,127	1,935
Fully diluted EPS (p)	0.52	(0.81)	5.14	13.87	19.51
Dividends per share (p)	–	–	1.70	4.30	5.30
Shareholders' funds	57	3,132	4,925	7,741	18,106
Employees (average)	21	27	32	45	78

Note: These figures have been extracted from the prospectus, dated 15 May 2000, and this and previous years' annual reports. 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.