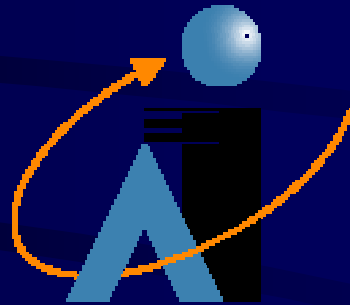
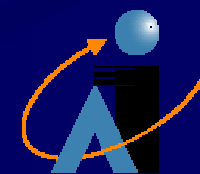


# Aero Inventory plc



**Preliminary results for year ended 30 June 2002**  
**Major new contract with HAECO**  
**Placing of £6.0m of new shares and 798,691 founder shares**

11 September 2002



## Board

**Frank Turner**  
**(Non-executive Chairman)**

**Laurence Heyworth**  
**(Executive Deputy Chairman)**

**Rupert Lewin**  
**(Chief Executive)**

**Martin Dodge**  
**(Asia Pacific Director)**

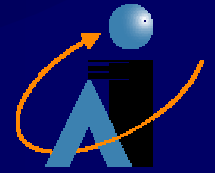
**Hugh Bevan**  
**(Finance Director)**

**Nigel McCorkell**  
**(Non-executive Director)**

## Contents

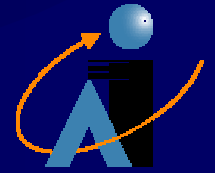
	<b>Page</b>
▶ Background to Aero Inventory	3
▶ Introduction	4
▶ Why aerospace?	5
▶ The Aero Inventory service	6
▶ Existing customers and contracts	7
▶ Benefits to the customer	8
▶ Rewards for Aero Inventory	9
▶ Market and competition	10
▶ Highlights of FY02 results	11
▶ Financials	12-13
▶ New HAECO contract	13
▶ Terms of new contract	15
▶ Purchase of inventories	16
▶ Prospects	17
▶ Placing	18
▶ Directors' biographies	19-20

Note. This presentation derives from published company information.  
In all cases, published information takes precedence



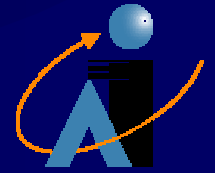
## Background to Aero Inventory

- April 1994**      Acquisition of Hibbert & Richards  
» distributor of industrial fasteners (sales c £40K per month)
- 1996-2000**      Business transformed into aerospace service provider  
» two UK contracts (CF Taylor, Britax)
- May 2000**      Aero Inventory shares listed on AIM; new directors  
» sales c £270K per month
- Nov 2000**      Original Hong Kong Aircraft Engineering Company (HAECO) contract
- March 2002**      Taikoo (Xiamen) Aircraft Engineering Company (TAEKO) contract
- 16 August 2002**      New HAECO contract signed



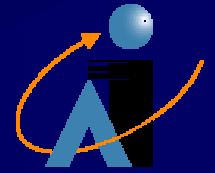
## Introduction

- Procurement and inventory management service
  - **service provider, not a distributor**
  - **focus on the aerospace industry**
- Proven system
  - **result of six years work**
  - **ISO 9002 certification and FAA accreditation**
  - **long-term, sole-supplier contracts**
- Increasing financial resources
  - **listed on AIM in May 2000 raising £3.1m**
  - **institutional placings in April 2001 raising £1.6m, and in January 2002 raising £2.0m**
  - **revolving credit facility from RBS increased to £5.0m in June 2002**



## Why aerospace?

- Need for large range of parts
  - **alpha-numeric part numbers, susceptible to computer management**
- Fragmented supplier base
- Requirement for traceability
- Procurement and inventory management mainly done in-house
- Trend towards outsourcing

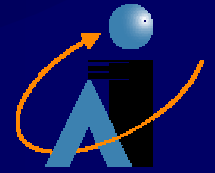


## The Aero Inventory service

- Sole supplier for agreed list of parts
- Delivery to point of use
- Inventory management at point of use
- AI operator(s) on site
- Financing of customer inventory
- Comprehensive delivery, usage and cost data
- Electronic invoicing

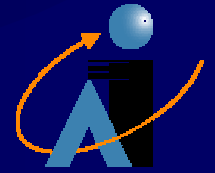
### Functions taken over (all or in part)

- Planning
- Purchasing
- Receiving
- Inspection
- Documentation
- Storage
- Kitting
- Quality assurance
- Financing of inventory



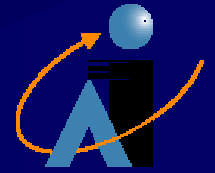
## Existing customers and contracts

- CF Taylor
  - **manufacture of aircraft galleys, stowages and crew rests**
  - supplier of small parts since early 1996; sole-supplier agreement signed in October 1999; new three-year contract signed in August 2000
- Britax Rumbold
  - **manufacture of aircraft seats, galleys and lavatories**
  - sole-supplier agreement signed September 1998; automatically renewed in September 2001 for a further three years
- Hong Kong Aircraft Engineering Company (HAECO)
  - **maintenance and repair of rotables and other aircraft components**
  - original five-year, sole-supplier contract signed in November 2000
  - new contract signed August 2002
- Taikoo (Xiamen) Aircraft Engineering Company (TAECCO)
  - **aircraft heavy maintenance and passenger-to-freighter conversions**
  - five-year, sole-supplier contract signed in March 2002



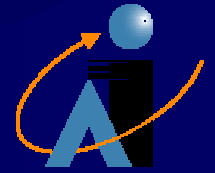
## Benefits to the customer

- Improved efficiency
  - notably fewer stockouts and shortages
- Reduction in direct costs
  - purchasing, stores and quality assurance
- Better usage information
- Working capital savings



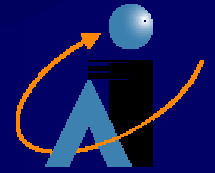
## Rewards for Aero Inventory

- Profitable business, without charging separately for service
  - **margin achieved through optimising procurement**
- As Group becomes larger, purchasing position strengthened
- Scope to extend sole supplier agreements



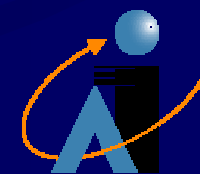
## Market and competition

- Annual requirement for many US\$bn of aerospace parts
  - **both from manufacturers and for maintenance and repair**
- Broad range of potential customers for outsourced procurement and inventory management
  - **aerospace manufacturers, airlines, aircraft maintenance and repair facilities, and government agencies**
- In our experience, the main source of “competition” is in-house
- Considerable competition from other companies in low value parts (eg fasteners)
  - **mainly from distributors**
- Competition less evident in high value parts required for maintenance and repair of rotables



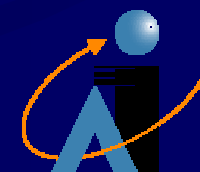
## Highlights of FY02 results

- Turnover £9,111,000, up 78% on the corresponding period
  - **UK turnover down 20% to £2,961,000; Asia Pacific turnover up 341% to £6,150,000**
- Operating profit £1,716,000, up 265%
- Net interest payable £99,000, vs net interest receivable £35,000
- Pre-tax profit £1,617,000, up 220%
- Tax charge 30.3%, vs 26.9%
  - **move into higher UK tax band**
- Fully diluted EPS 13.87p, up 170%
- Final dividend of 2.3p net giving a total for the year of 4.3p, up 153%



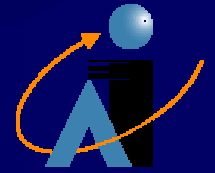
## P&L record

Year end: 30 June	1999	2000	2001	2002
<b>(£'000)</b>				
<b>Turnover</b>	<b>3,278</b>	<b>3,249</b>	<b>5,110</b>	<b>9,111</b>
Operating expenses	3,140	3,188	4,640	7,395
<b>Operating profit</b>	<b>138</b>	<b>61</b>	<b>470</b>	<b>1,716</b>
Net interest	(107)	(100)	35	(99)
<b>Profit / (loss) before tax</b>	<b>31</b>	<b>(39)</b>	<b>505</b>	<b>1,617</b>
Tax	(10)	4	(136)	(490)
<b>Profit / (loss) after tax</b>	<b>21</b>	<b>(35)</b>	<b>369</b>	<b>1,127</b>
Dividends	-	(30)	(131)	(365)
<b>Retained profit / (loss) for the year</b>	<b>21</b>	<b>(65)</b>	<b>238</b>	<b>762</b>
Basic EPS (p)	0.52	(0.81)	5.17	14.01
Fully diluted EPS (p)	0.52	(0.81)	5.14	13.87
Dividends per share (p)	-	-	1.7	4.3



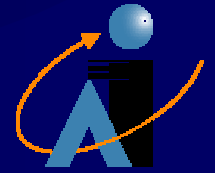
## Balance sheet record

Year end: 30 June	1999	2000	2001	2002
<b>(£000)</b>				
<b>Fixed assets</b>				
Tangible fixed assets	144	106	492	520
<b>Current assets</b>				
Stocks	521	762	3,710	9,748
Debtors	1,103	732	2,465	2,289
Cash	184	2,238	562	-
	1,808	3,732	6,737	12,037
<b>Creditors: amounts falling due within one year</b>	(1,833)	(666)	(2,256)	(4,789)
<b>Net current assets / (liabilities)</b>	(25)	3,066	4,481	7,248
<b>Total assets less current liabilities</b>	119	3,172	4,973	7,768
<b>Creditors: amounts falling due after more than one year</b>	(62)	(40)	(23)	-
<b>Provisions for liabilities and charges</b>	-	-	(25)	(27)
<b>Net assets</b>	<b>57</b>	<b>3,132</b>	<b>4,925</b>	<b>7,741</b>
<b>Capital and reserves</b>				
Called up share capital	25	88	96	106
Share premium account	-	3,096	4,643	6,687
Profit and loss account	32	(52)	186	948
<b>Shareholders' funds</b>	<b>57</b>	<b>3,132</b>	<b>4,925</b>	<b>7,741</b>



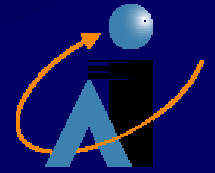
## **New HAECO contract**

- **Scale:**
  - **absorbs and extends existing HAECO contract**
  - **potential annual sales value US\$30m, with US\$17m p.a. of new business**
  - **AI becomes a key service provider to HAECO in support of Cathay Pacific**
- **Further significance:**
  - **reinforces success in Asia Pacific**
  - **positions company for other opportunities in parts for rotables (ie regularly overhauled removable aircraft components)**



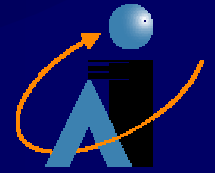
## Terms of new contract

- Procurement and inventory management contract
  - **parts for rotables and other components for aircraft operated by Cathay Pacific and others and maintained by HAECO**
  - **exclusive, sole-supplier basis**
  - **runs from 1 September 2002 to 31 December 2005, renewable for a further five years**
- Commencement date 1 September 2002
  - **customer to be invoiced monthly on the basis of usage**
  - **immediate contribution to sales**



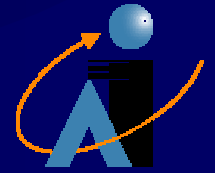
## Purchase of inventories

- Aero Inventory to purchase relevant inventories from HAECO, including a substantial inventory previously owned by Cathay Pacific and used by HAECO
- Consideration approximately US\$6m
- Aero Inventory entitled to dispose of surplus stock to third parties



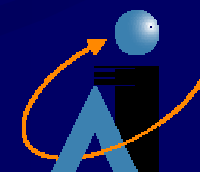
## Prospects

- Substantial growth in prospect for FY03
  - **based on new HAECO contract and TAECO contract**
- Significant opportunities in field of parts for rotables
- Asia Pacific to remain important geographical focus in near term
  - **growth market**
  - **availability of lower cost technically qualified labour**



## Placing

- Price of placing shares 330p
- 1,818,182 new shares to raise £6.0m
  - **proceeds to be used for US\$6.0m inventories purchase and working capital for new contract**
  - **6/02 proforma net gearing of 7% post placing and inventories purchase**
- 798,691 of founder shares
  - **25% of the holdings of Rupert Lewin, Martin Dodge and Laurence Heyworth**
  - **24 months minimum lock-up over remaining 75%**
- Three directors buying shares
  - **Frank Turner 6,000, Hugh Bevan 10,000 and Nigel McCorkell 3,600**
- No stamp duty payable on placing shares
- Placing shares do not rank for FY02 final dividend



## Directors' biographies

### **Frank Turner, Non-executive Chairman (aged 59)**

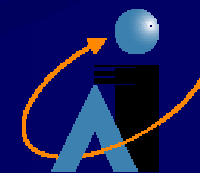
Frank Turner joined the Company as a non-executive director in May 2000. He was appointed non-executive Deputy Chairman in June 2001 and became non-executive Chairman in July 2001. A fellow of the Royal Academy of Engineering, he spent 33 years at Rolls-Royce plc becoming a main board director in 1988. He was Managing Director of Lucas Aerospace Limited as well as a director of Lucas Industries plc from 1992 to 1995. 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 Mettis Group Limited and of Potenza Group Limited, a non-executive director of Mott MacDonald Limited and Material Logistics plc, and an advisor on aerospace to Bridgepoint Capital Limited, Star Capital Partners Limited, 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. He is also a Council Member of the International Federation of Airworthiness.

### **Laurence Heyworth, Executive Deputy Chairman (aged 47)**

Laurence Heyworth, who has been a major 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 specialized 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 46)**

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.



## Directors' biographies (continued)

### **Martin Dodge, Asia Pacific Director (aged 40)**

Martin Dodge joined the company at the same time as Rupert Lewin in 1994. He was Commercial Director between December 1988 and August 2002 when he became Asia Pacific Director to reflect his position as Managing Director of Aero Inventory (Hong Kong) Limited. He joined Courage Limited (part of the Imperial Group plc) in 1985 where he progressed to the position of Promotions and Marketing Manager. From 1988 to 1994 he worked as Business Development Manager at SI Industries Limited.

### **Hugh Bevan, Finance Director (aged 40)**

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 55)**

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.