Aero Inventory plc

ANNUAL REPORT & ACCOUNTS

2003-2004

Contents

Company information

Directors
F Turner FR Eng (Non-executive Chairman)
P R Lewin (Chief Executive)
M P Dodge MBA (Commercial Director)
H C Bevan ACA (Finance Director)
P M Docker (Operations Director)
H N P McCorkell FCA (Non-executive Director)

Secretary
M J Webster FCIS

Company number
2887038

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30 Lancaster Road
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Solicitors
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The Royal Bank of Scotland plc
62–63 Threadneedle Street
London EC2R 8LA

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London EC3A 8AB

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Chairman's statement

Results

Aero Inventory's results for the year ended 30 June 2004 show a 26.1 per cent fall in pre-tax profits to £2,081,000 and a 52.9 per cent fall in fully diluted earnings per share to 9.22p, on turnover up 32.8 per cent.

As previously indicated in stock exchange announcements, sales from the group's existing procurement and inventory management contracts were lower than expected for a number of reasons, including the prolonged after-effects of the SARS crisis on the HAECO contract, a slow start-up to the SR Technics contract, and the weak US dollar. There was also a delay in finalising important new business, in particular our contracts with FLS Aerospace, while the overheads to support this additional business were necessarily in place for much of the period. The effect on profits of the shortfall in sales from existing contracts was partially offset by a significant contribution from a transaction involving the active trading of the group's inventories of aircraft parts. This trading activity has been significantly developed during the year.

The fall in profits should not obscure the significant progress that Aero Inventory has made over the past twelve months in broadening its customer base among aircraft maintenance and repair companies and, thus, the exposure it has to the world's airlines. Four years after its admission to trading on AIM, Aero Inventory has, we believe, now reached critical mass – and, as discussed below, the benefits of this should be evident in the financial results for the current financial year.

Based on current monthly revenues, our four main contracts – with HAECO, SR Technics, FLS Aerospace (IRL) and FLS Aerospace (UK) – now have potential sales of over US$700 million over the remaining lives of the contracts.

Dividend

Bearing in mind the factors that affected the results for the year ended 30 June 2004 and the positive outlook for the current financial year, the Board is recommending an increased final dividend of 3.0p (2003: 2.3p) following the unchanged interim dividend of 3.0p, to give a total for the year of 6.0p, an increase of 13.2%. The final dividend will be paid on 16 December 2004 to shareholders on the register on 15 October 2004.

Contracts

The year saw the commencement, on 1 December 2003, of a major procurement and inventory management contract with the Swiss company SR Technics, which is the world's largest independent total technical service provider to airlines, a company of which I am also Chairman. This contract was described in a circular sent to shareholders on 3 October 2003. On 18 February 2004, we announced a further contract with SR Technics for the supply of a range of aircraft parts in Hong Kong in support of one of SR Technics' major customers in Asia Pacific, namely Dragonair. This is giving rise to a useful increase in the group's business in Hong Kong.

On 22 March 2004, we announced a procurement and inventory management contract with Abu Dhabi-based Gulf Aircraft Maintenance Company (GAMCO), a leading player in the Middle Eastern aircraft maintenance, repair and overhaul market. While the initial sales value of this agreement is relatively small, we believe there is scope for this to increase significantly as the agreement is extended to include additional parts, particularly given GAMCO's involvement with Abu Dhabi's new airline ETIHAD.

On 31 August 2004, we announced two essentially identical procurement and inventory management contracts with FLS Aerospace (UK) and FLS Aerospace (IRL). These are the principal subsidiaries of FLS Aerospace, the European aircraft maintenance and repair business that was recently acquired by SR Technics. The contracts, which became effective on 28 August 2004, cover the supply on an exclusive basis of a wide range of aircraft parts for an initial period of five years, renewable for a further five years. The value of the aggregate relevant usage of parts covered by the contracts in the year ended 31 December 2003 was in excess of US$40 million and has been approximately US$23.5 million in the first seven months of 2004. In line with its normal business model, Aero Inventory has acquired FLS Aerospace's inventories of parts covered by these contracts for a total consideration of US$20.0 million. This has been financed out the group's existing bank facilities.

Financing during the year

In October 2003, Aero Inventory raised £15.1 million (net of expenses) through a placing of 4,225,000 new shares to finance the SR Technics contract. I should like to thank the existing and new shareholders who participated in this placing, and indeed shareholders generally, for their continuing support.

Following this placing, we increased our banking facilities from £10.0 million to £25.0 million.

Prospects

We expect a substantial increase in turnover in the financial year ending 30 June 2005. This is because there will be a first-time 10-month contribution from the FLS Aerospace contracts, and a 12-month (as opposed to 7-month) contribution from the SR Technics contract; also, we expect growth in the value of the HAECO contract now that the after-effects of SARS are fading.

Given the high element of fixed costs in the business, Aero Inventory's profits are highly operationally geared. In the current year, we expect to see the positive effects of operational gearing on our results.

Board

Paul Docker, who joined the group as Procurement Director of Aero Inventory (UK) Limited in November 2003, was appointed Operations Director of the group on 1 July 2004. Mr Docker previously worked for Smiths Group plc in a number of procurement and logistics roles.

Martin Dodge, who has been the group's Asia Pacific Director since August 2002, has resumed the position of Commercial Director, while retaining overall responsibility for the Asia Pacific region. This change follows a significant strengthening of the management of Aero Inventory (Hong Kong) Limited.

Laurence Heyworth, who became executive Deputy Chairman in June 2001, resigned from the board on 30 June 2004, having performed a key role in structuring the business and recruiting much of the present management team in preparation for a period of substantial growth. He has agreed to act as a consultant to the group for at least the next 12 months. I should like to thank Mr Heyworth for his major contribution to the business.

Mr Heyworth's day-to-day responsibilities have largely been assumed by Hugh Bevan (Finance Director) and Martin Webster. Mr Webster, who joined the group in June 2004, is now Company Secretary in Mr Bevan's stead; he also has group-wide responsibility for personnel matters. Mr Webster was previously Director of Business Services and Group Company Secretary of Dexion Group Ltd.

Thanks

The work and complexity involved in implementing and running large-scale procurement and inventory management contracts should not be underestimated. In these contracts Aero Inventory takes on responsibility for ensuring the immediate availability to customers of tens of thousands of aircraft parts, and works to demanding performance metrics. This involves many disciplines – including information systems, data analysis, planning, purchasing, logistics, finance, administration, and quality control – but, above all, it demands a nothing-is-too-much-trouble attitude on behalf of every member of staff. Once again, I should like to thank the team at Aero Inventory for its unwavering customer focus, professionalism, determination and enthusiasm.

Frank Turner
Non-executive Chairman
13 September 2004

Chief Executive's statement

Review of results

Turnover for the year ended 30 June 2004 increased by 32.8 per cent to £21,078,000 (2003: £15,871,000). Turnover included £2,928,000 of sales related to the trading of the group's inventories of aircraft parts, an activity which is being developed alongside the group's purchasing function in order to enhance returns from the necessarily high levels of inventory held in relation to long-term, sole-supplier contracts.

Operating profit was down by 25.9 per cent to £2,322,000 (2003: £3,135,000) for the reasons given in the Chairman's statement. The operating margin fell from 19.8 per cent to 11.0 per cent.

Net interest paid amounted to £241,000 (2003: £320,000). The pre-tax profit was therefore £2,081,000 (2003: £2,815,000).

After a tax charge of £761,000 (2003: £880,000) – an effective rate of 36.6 per cent (2003: 31.3 per cent) – profit was £1,320,000 (2003: £1,935,000) and basic earnings per share were 9.27p (2003: 19.62p). The fully diluted earnings per shares were 9.22p, a 52.9 per cent decrease on the previous year's figure of 19.51p.

Net debt at the year-end was £8,620,000 (2003: £2,227,000), compared to shareholders' funds of £33,624,000 (2003: £18,106,000), implying gearing of 25.6 per cent (2003: 12.3 per cent).

The year-end consolidated balance sheet once again shows greatly increased stocks at £36,861,000 (2003: £19,174,000). The majority of the increase in stock levels reflects the US$20.0 million inventory purchase connected with our major contract with SR Technics. Debtors at the year-end were £7,994,000 (2003: £2,528,000). The increase in debtors reflects the start of the SR Technics contract and some recovery in our Asia Pacific business as well as a pre-payment to a supplier.

We have funded our increased working capital through a share placing which raised £15.1 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 1.74 (2003: 1.56) and the rate used for translating year-end financial assets and liabilities was 1.81 (2003: 1.65).

Capital expenditure

Capital expenditure in the year was £194,000 (2003: £792,000), the majority of this being on refurbishment and computer equipment. In the corresponding period there was much larger expenditure, mainly in connection with the large-scale refurbishment and equipping of our warehouse and office premises.

Information technology

During the year, Aero Inventory has continued to invest in database development and, in particular, in adding functionality to our proprietary procurement and inventory management system, 'Parts Central'. There has also been considerable work done on improving the performance and resilience of our IT infrastructure necessitated by the increased size and scope of the business.

Business strategy

Aero Inventory's ultimate goal is to become the world's leading aircraft consumable parts service provider. Now, with major long-term contracts in place with a number of the world's leading aircraft maintenance and repair businesses, and holding as we do a very extensive range and inventory of current aircraft consumable parts, we are exceptionally well-placed to capitalise on a large, emerging outsourcing market, as aerospace businesses seek to gain cost and efficiency advantages through outsourcing parts procurement and inventory management.

Aero Inventory's business model involves becoming the exclusive supplier to a customer of a defined range of aircraft parts on the basis of a long-term contract; it also involves purchasing the customer's existing inventory and thereafter charging the customer on the basis of usage. Typically, we expect the customer to pay no more for its parts than in the past, meaning that the customer enjoys significant savings in operating and capital costs. Aero Inventory's profit comes primarily from optimising procurement.

We believe that the attractions of this business model both for its customers and for Aero Inventory and its shareholders are considerable and will become increasingly evident over time. Over coming years, there will be many opportunities for us to add incremental business related to our existing customers and to secure further contracts among aircraft maintenance and repair companies, airlines, aerospace manufacturers, and government agencies. We will focus on winning major contracts from world-class companies. As the business grows, we are confident there will be economies of scale in purchasing and in the trading of our inventories; and there will be opportunities to pool inventory where appropriate.

Our prime objective for the financial year ending 30 June 2005 is to establish a platform of substantial profitability and cash generation. Our long-term success depends on maintaining a combination of attractive financial returns and constantly improving customer service.

Rupert Lewin
Chief Executive
13 September 2004

Directors' report

The directors present their report and the accounts for the year ended 30 June 2004.

Results and dividends

The profit for the year after taxation amounted to £1,320,000 (2003: £1,935,000). The directors recommend the payment of a final dividend of 3.0p per share (2003: 2.3p), payable on 16 December 2004 to shareholders on the register on 15 October 2004, making a total for the year of 6.0p per share (2003: 5.3p).

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 and Aero Inventory (Switzerland) AG are 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 2004 the average period of credit taken from the group's suppliers amounted to 32 days (2003: 37 days).

Post balance sheet event

On 27 August 2004, Aero Inventory entered into contracts with FLS Aerospace (UK) Ltd and FLS Aerospace (IRL) Ltd covering the supply, on an exclusive basis, of a wide range of aircraft parts for an initial period of five years, renewable for a further five years. The contracts commenced on 28 August 2004. In line with its normal business model, Aero Inventory acquired FLS Aerospace's inventories of parts covered by these contracts for a total consideration of US$20.0 million. This was financed out of the company's existing bank facilities.

Substantial interests

At 10 September 2004, besides directors' interests, the company has been notified of the following interests in 3.0% or more of the issued share capital:

	% of ordinary issued share capital	Ordinary shares of 1.25p each
Singer & Friedlander Investment Management Limited	7.35	1,150,043
Scottish Widows Investment Partnership Limited	5.10	798,200

The mid-market price of the company's shares on 30 June 2004 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 £1,210.

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 at the date of the Annual General Meeting, and for disapplication of pre-emption rights on new shares equal to 10% of the issued share capital at the date of the Annual General Meeting. The maximum number of shares to which the authority would apply is 5,214,600, and the number of shares for which pre-emption rights might be disapplied is 1,564,384.

Auditors

Following the transfer of substantially all of the business of Horwath Clark Whitehill to a limited liability partnership on 1 April 2004, Horwath Clark Whitehill resigned and the directors appointed their successor, Horwath Clark Whitehill LLP, as auditors.

Horwath Clark Whitehill LLP have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted to the forthcoming Annual General Meeting.

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 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 2004 is set out below.

(£'000)	2004	2003
Executive directors[1]		
L Heyworth[2]	**90**	78
P R Lewin	**124**	113
M P Dodge[3]	**125**	119
H C Bevan	**93**	83
Non-executive directors		
F Turner	**60**	60
H N P McCorkell	**30**	30
	522	483

[1] P M Docker was appointed on 1 July 2004 and therefore received no emoluments as a director during the year.
[2] resigned 30 June 2004
[3] Included in the emoluments of M P Dodge shown above is £27,500 (2003: £31,500) in respect of the costs of his accommodation in Hong Kong.

Directors' share option, bonus and pension schemes

The company is in the process of implementing pension and bonus arrangements and is considering further share option arrangements and long-term incentives 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 76,763 ordinary shares. Options over 25,641 ordinary shares were granted on 9 April 2002 at an exercise price of 390p, options over 27,777 ordinary shares were granted on 27 November 2002 at an exercise price of 450p and options over 23,255 ordinary shares were granted on 29 October 2003 at an exercise price of 430p. The options are exercisable between three and ten years from the date of grant.

P M Docker has options over 27,210 ordinary shares which were granted on 1 April 2004 (19,047 shares) and 29 April 2004 (8,163 shares) all an exercise price of 367.5p,

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 2004	**30 June 2003**
F Turner	127,206	112,206
L Heyworth[1]	812,008	812,008
P R Lewin	1,156,025	1,156,025
M P Dodge	428,040	428,040
H C Bevan	42,520	42,520
H N P McCorkell	85,200	81,600

[1] resigned 30 June 2004

As part of a 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, H C Bevan, M P Dodge and P M Docker will retire at the next Annual General Meeting of the company, and being eligible, offer themselves for re-election.

By order of the board

Martin Webster
Secretary

13 September 2004

Registered Office
30 Lancaster Road
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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 2004 set out on pages 12 to 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 financial statements 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 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 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Horwath Clark Whitehill LLP
Chartered Accountants
and Registered Auditors

13 September 2004

Consolidated profit and loss account
for the year ended 30 June 2004

(£'000)	Notes	2004	2003
Turnover	2	**21,078**	15,871
Operating expenses	3	**(18,756)**	(12,736)
Operating profit		**2,322**	3,135
Interest receivable	5	**27**	9
Interest payable	6	**(268)**	(329)
Profit on ordinary activities before taxation		**2,081**	2,815
Taxation on profit on ordinary activities	7	**(761)**	(880)
Profit on ordinary activities after taxation		**1,320**	1,935
Dividends	8	**(938)**	(571)
Retained profit for the financial year	19	**382**	1,364
Basic earnings per share (pence)	9	**9.27**	19.62
Fully diluted earnings per share (pence)	9	**9.22**	19.51

There were no recognised gains and losses for 2004 or 2003 other than those included in the profit and loss account.

Turnover and operating profit have been generated from continuing operations.

The notes on pages 16–22 form part of these financial statements.

Consolidated balance sheet
at 30 June 2004

(£'000)	Notes	2004	2003
Fixed assets			
Tangible fixed assets	11	**974**	1,075
Current assets			
Stocks	13	**36,861**	19,174
Debtors	14	**7,994**	2,528
		44,855	21,702
Creditors: amounts falling due within one year	15	**(12,203)**	(4,641)
Net current assets		**32,652**	17,061
Total assets less current liabilities		**33,626**	18,136
Provisions for liabilities and charges	16	**(2)**	(30)
Net assets		**33,624**	18,106

Capital and reserves			
Called up share capital	18	**195**	142
Share premium account	19	**30,739**	15,656
Profit and loss account	19	**2,690**	2,308
Shareholders' funds – all equity	20	**33,624**	18,106

The notes on pages 16–22 form part of these financial statements.

The accounts were approved by the board on 13 September 2004
and signed on its behalf by:

Rupert Lewin, Chief Executive

Hugh Bevan, Finance Director

Company balance sheet
at 30 June 2004

(£'000)	Notes	2004	2003
Fixed assets			
Investments	12	**83**	83
Current assets			
Debtors	14	**31,320**	15,977
Creditors: amounts falling due within one year	15	**(469)**	(262)
Net current assets		**30,851**	15,715
Total assets less current liabilities		**30,934**	15,798
Capital and reserves			
Called up share capital	18	**195**	142
Share premium account	19	**30,739**	15,656
Profit and loss account	19	**–**	–
Shareholders' funds – all equity	20	**30,934**	15,798

The notes on pages 16–22 form part of these financial statements.

The accounts were approved by the board on 13 September 2004 and signed on its behalf by:

Rupert Lewin, Chief Executive

Hugh Bevan, Finance Director

Consolidated cash flow statement
for the year ended 30 June 2004

(£'000)	Notes	2004	2003
Net cash outflow from operating activities	21	**(19,792)**	(5,855)
Returns on investments and servicing of finance	22	**(241)**	(320)
Taxation		**(571)**	(1,225)
Capital expenditure and financial investment	22	**(194)**	(792)
Equity dividends paid		**(731)**	(504)
Cash outflow before financing		**(21,529)**	(8,696)
Financing			
Issue of shares – net of expenses	22	**15,136**	9,005
Decrease in debt	22	**–**	(23)
	22	**15,136**	8,982
Increase/(decrease) in cash in the year		**(6,393)**	286

The notes on pages 16–22 form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2004

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 2004 and 2003 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 on a FIFO basis, 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 or under separate transactions.

(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.

The trading results of the overseas subsidiaries are translated into sterling at the average rate for the year. Translation differences arising on the consolidation of these companies are dealt with as adjustments to reserves.

(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 activities of procurement and inventory management for the aerospace industry.

Segmental analysis

A geographical analysis of turnover is as follows:

(£'000)	2004	2003
Asia Pacific	**10,661**	13,037
United Kingdom, Europe & Middle East	**10,417**	2,834
Group total	**21,078**	15,871

An analysis of turnover and result by type of sale is as follows:

(£'000)	Sales to contracted customers 2004	Sales to third parties 2004	Group total 2004	Group total 2003
Turnover	18,150	2,928	**21,078**	15,871
Gross profit	5,890	2,046	**7,936**	7,078
Common costs			**5,614**	3,943
Operating profit			**2,322**	3,135
Net interest			**(241)**	(320)
Group profit before taxation			**2,081**	2,815

The directors have elected not to disclose the result of each geographical segment, and type of sale, on the grounds that the disclosure of this information would be prejudicial to the interests of the company.

All overheads are considered to be common costs, since the group mainly operates from a common centre of business which services all types of activity. A segmental analysis of the net assets of the group is not considered appropriate, as stock and other assets are used in common for both classes of activity and for all geographical segments.

The group sells stock items under exclusive long-term contracts and also by selling to third parties. The group has entered into exclusive service contracts with a number of customers to supply parts over a contracted period of time, typically ten years, with up to nine years remaining outstanding as at 30 June 2004. The group holds stocks for these contracts on a long-term basis, principally based on usage statistics built up during the course of the contract. Where stock holdings are in excess of immediate anticipated contractual requirements, the group's strategy is to sell the excess stock where possible by means of separate sale transactions with third parties. This strategy is exemplified by the first major separate transaction highlighted below, and the directors expect to repeat this type of transaction in the years ahead. The directors anticipate that a significant amount of current stock levels will be sold other than through its long-term supply contracts, in particular through increased cross-selling opportunities and other sales to third parties.

On 24 June 2004, the group entered into a transaction with a third party company, under which the group sold stock parts for MD11 aircraft for US$5.0 million. At the same time the group also entered into a contract with the same third party company to prepay US$8.4 million for other stock which will be delivered to the group during the year ended 30 June 2005. Of the US$8.4 million purchase price, US$3.4 million was paid directly to the third party's supplier company, an unrelated company registered in the US. The remaining US$5.0 million cost was set against the US$5.0 million due from the third party company for the sale of MD11 parts, such that there was no cash paid to or received from the third party.

The transactions referred to above, which are not part of a long-term supply agreement, represent a development of the group's established contractual model. The purchase and sale of all parts took place at arm's length and at market prices, and represent a key step in achieving the group's strategy to re-profile stock-holdings in order to best suit their contract needs. The sale transaction is referred to as 'Sales to third parties' turnover in the table above.

3 Operating expenses

(£'000)	2004	2003
Operating expenses comprise:		
Change in stocks for resale	**(17,687)**	(9,426)
Raw materials and consumables	**31,171**	17,964
Staff costs	**3,173**	2,205
Depreciation of tangible fixed assets owned by the group	**295**	237
Other operating charges	**1,804**	1,756
	18,756	12,736
Other operating charges include:		
Audit fees	**92**	55
Auditors' remuneration – non-audit services	**55**	53
Operating lease rentals:		
land and buildings	**156**	152
office equipment	**8**	–

4a Staff costs

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

(£'000)	2004	2003
Wages and salaries	**2,909**	2,087
Social security costs	**264**	118
	3,173	2,205

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

	2004	2003
Administration	**101**	78

4b Directors' remuneration

(£'000)	2004	2003
Aggregate emoluments	**522**	483

An analysis of directors' emoluments is set out below.

(£'000)	2004	2003
Executive directors[1]		
L Heyworth[2]	**90**	78
P R Lewin	**124**	113
M P Dodge[3]	**125**	119
H C Bevan	**93**	83
Non-executive directors		
F Turner	**60**	60
H N P McCorkell	**30**	30
	522	483

[1] P M Docker was appointed as a director on 1 July 2004 and therefore received no emoluments during the period to 30 June 2004.
[2] resigned 30 June 2004
[3] Included in the emoluments of M P Dodge shown above is £27,500 (2003: £31,500) in respect of the costs of his accommodation in Hong Kong.

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

5 Interest receivable

(£'000)	2004	2003
Bank interest receivable	**27**	9

6 Interest payable

(£'000)	2004	2003
Interest on bank facilities	**268**	329

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

(£'000)	2004	2003
Current year taxation		
UK corporation tax at 30% (2003: 30%)	**785**	874
Overseas taxation	**7**	–
Adjustment re previous year	**(3)**	2
	789	876
Deferred tax	**(28)**	3
Adjustment re previous year	**–**	1
	761	880

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)	2004	2003
Profit on ordinary activities before taxation	**2,081**	2,815
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	**624**	845
Effects of:		
Permanent differences	**36**	32
Other items	**125**	(1)
	785	876

8 Dividends

(£'000)	2004	2003
Ordinary – interim paid at 3.0p per share (2003: 3.0p per share)	**469**	309
Ordinary – final proposed at 3.0p per share (2003: 2.3p per share)	**469**	262
	938	571

9 Earnings per share

Basic and fully diluted earnings per share have been calculated on the group's profit attributable to shareholders of £1,320,000 (2003: £1,935,000) and on the weighted average number of shares in issue during the financial year, which for the basic earnings per share was 14,242,019 (2003: 9,863,203) and for the diluted earnings per share was 14,321,478 (2003: 9,918,270).

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 £1,320,000 (2003: £1,935,000) includes a profit of £829,000 (2003: £571,000) which is dealt with in the accounts of the company.

11 Tangible fixed assets

(£'000)	Leasehold improvements	Fixtures and equipment	Motor vehicles	Total
Cost				
At 1 July 2003	201	1,214	197	1,612
Additions	–	194	–	194
At 30 June 2004	**201**	**1,408**	**197**	**1,806**
Depreciation				
At 1 July 2003	43	369	125	537
Charge for the period	20	240	35	295
At 30 June 2004	**63**	**609**	**160**	**832**
Net book value				
At 30 June 2004	**138**	**799**	**37**	**974**
At 30 June 2003	158	845	72	1,075

12 Fixed asset investments

(£'000)	
At 30 June 2004 and 30 June 2003: cost	**83**

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

13 Stocks

(£'000)	2004	2003
Goods for resale	**36,861**	19,174

The directors believe that the stock levels held by the Group are appropriate, and reflect both the need to service contracts and also the ability to dispose of non-core stock.

The directors consider it appropriate to set up a general provision for stock held, and this amounted to £360,000 at 30 June 2004 in accordance with the Group's accounting policy.

14 Debtors: amounts falling due within one year

(£'000)	2004	2003
Group		
Trade debtors	**1,946**	1,781
Other debtors	**22**	34
Prepayments and accrued income[1]	**6,026**	713
	7,994	2,528
Company		
Amounts owed by group undertakings	**31,320**	15,977
	31,320	15,977

[1] Prepayments include £4,576,160 in respect of stock paid for but not yet delivered at the balance sheet date. The details of this prepayment are set out in note 2.

15 Creditors: amounts falling due within one year

(£'000)	2004	2003
Group		
Bank facility used (net of cash at bank and in hand)[1]	**8,620**	2,227
Trade creditors	**1,737**	1,712
Corporation tax	**400**	180
Social security and other taxes	**92**	99
Proposed dividends	**469**	262
Other creditors	**689**	44
Accruals and deferred income	**109**	76
Accrued interest payable	**87**	41
	12,203	4,641
Company		
Proposed dividends	**469**	262
	469	262

[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 2003	**30**
Charged in the profit and loss account	**(28)**
At 30 June 2004	**2**

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 £25,000,000 (£9,500,000 in 2003) 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 2006, 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 2004, the aggregate amount owed to these suppliers was approximately £1,742,174 (2003: £973,137).

18 Called up share capital

(£'000)	2004	2003
Authorised		
80,000,000 ordinary shares of 1.25p each	**1,000**	1,000
Allotted, called up and fully paid		
15,643,844 ordinary shares of 1.25p each (2003: 11,378,779 ordinary shares of 1.25p each)	**195**	142

4,225,000 ordinary shares of 1.25p each (nominal value: £52,812) were issued on 28 October 2003 at 375p per share.

4,675 options over ordinary shares of 1.25p each (nominal value £58) were exercised on 3 July 2003 at 123p per share. 10,909 options over ordinary shares of 1.25p each (nominal value £136) were exercised on 26 August 2003 at 123p per share. 2,452 options over ordinary shares of 1.25p each (nominal value £31) were exercised on 28 August 2003 at 123p per share. 1,234 options over ordinary shares of 1.25p (nominal value £15) were exercised on 10 October 2003 at 123p per share. 4,052 options over ordinary share of 1.25p (nominal value £51) were exercised on 19 February 2004 at 123p per share. 3,275 options over ordinary shares of 1.25p (nominal value £41) were exercised on 20 February 2004 at 123p per share. 13,468 options over ordinary shares of 1.25p (nominal value £168) were exercised on 15 April 2004 at 123p per share.

At 30 June 2004, there were 562,186 (2003: 284,957) options outstanding over ordinary shares of 1.25p each granted to certain employees and two directors. These options, under either 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	Exercisable rate (p)
18 May 2000	10,724	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	38,750	403
27 November 2002	27,777	450
30 April 2003	86,000	360
10 October 2003	119,199	475
29 October 2003	23,255	430
1 April 2004	108,840	367.5
29 April 2004	78,000	382.5

19 Reserves

(£'000)	Group	Company
Share premium account		
At 1 July 2003	**15,656**	15,656
Premium on shares issued during the year	**15,844**	15,844
Expenses of share issue	**(761)**	(761)
At 30 June 2004	**30,739**	30,739
Profit and loss account		
At 1 July 2003	**2,308**	–
Retained profit for the year	**382**	–
At 30 June 2004	**2,690**	–

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.

20 Reconciliation of movements in shareholders' funds

(£'000)	2004	2003
Group		
Profit for the year	**1,320**	1,935
Losses from Aero Inventory (Hong Kong) Limited not consolidated last year	**–**	(4)
Dividends	**(938)**	(571)
	382	1,360
Shares issued during year	**53**	36
Share premium on shares issued (net of expenses)	**15,083**	8,969
	15,518	10,365
Opening shareholders' funds	**18,106**	7,741
Closing shareholders' funds	**33,624**	18,106
Company		
Profit for the year	**938**	571
Dividends	**(938)**	(571)
Shares issued during year	**53**	36
Share premium on shares issued (net of expenses)	**15,083**	8,969
	15,136	9,005
Opening shareholders' funds	**15,798**	6,793
Closing shareholders' funds	**30,934**	15,798

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

(£'000)	2004	2003
Operating profit	**2,322**	3,135
Depreciation of tangible fixed assets	**295**	237
Increase in debtors	**(5,466)**	(205)
Increase in stocks	**(17,687)**	(9,426)
Increase in creditors	**744**	404
Net cash outflow from operating activities	**(19,792)**	(5,855)

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

(£'000)	2004	2003
Returns on investments and servicing of finance		
Interest received	**27**	9
Interest on bank facility	**(268)**	(329)
Net cash outflow for returns on investments and servicing of finance	**(241)**	(320)
Capital expenditure		
Purchase of tangible fixed assets	**(194)**	(792)
Net cash outflow for capital expenditure	**(194)**	(792)
Financing		
Issue of shares – net of expenses	**15,136**	9,005
Decrease in debt		
Capital element of finance lease rentals	**–**	(23)
Net cash inflow from financing	**15,136**	8,982

23 Reconciliation of net cash flow to movement in net debt

(£'000)	2004	2003
(Decrease)/increase in cash in the year	**(6,393)**	286
Cash flow from decrease in debt and lease financing	**–**	23
Change in net cash resulting from cash flows	**(6,393)**	309
Net debt at 1 July 2003	**(2,227)**	(2,536)
Net debt at 30 June 2004	**(8,620)**	(2,227)

24 Analysis of net debt

(£'000)	1 July 2003	Cash flows	30 June 2004
Bank facility	(2,227)	(6,393)	**(8,620)**

25 Operating lease commitments

At 30 June 2004 there were annual commitments under non-cancellable operating leases, including property leases, as follows:

	Land and buildings		Other	
(£'000)	**2004**	**2003**	**2004**	**2003**
Expiry date:				
Within 1 year	**–**	–	**25**	–
Between 2 and 5 years	**13**	13	**50**	–
In more than 5 years	**156**	156	**–**	–
	169	169	**75**	–

26 Post balance sheet event

On 27 August 2004, Aero Inventory entered into contracts with FLS Aerospace (UK) Ltd and FLS Aerospace (IRL) Ltd covering the supply, on an exclusive basis, of a wide range of aircraft parts for an initial period of five years, renewable for a further five years. The contracts commenced on 28 August 2004. In line with its normal business model, Aero Inventory acquired FLS Aerospace's inventories of parts covered by these contracts for a total consideration of US$20.0 million. This was financed out of the company's existing bank facilities.

27 Related party transactions

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).

£28,100 was paid to Rupert Lewin Racing Limited during the year in respect of corporate entertainment provided to Aero Inventory's customers.

Frank Turner is a shareholder in and is Chairman of SR Technics (Holdings). As a result he declared these interests and did not participate in the detailed negotiations or in the Board's decision to proceed with the contracts with SR Technics.

Directors' biographies

Frank Turner, Non-executive Chairman (aged 61)

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, and 3i. A former Council Member of the Society of British Aerospace Companies and the Royal Aeronautical Society, he is currently a Council Member of the International Federation of Airworthiness.

Rupert Lewin, Chief Executive (aged 48)

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 42)

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. He was re-appointed as Commercial Director with effect from 1 July 2004. He retains responsibility for 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.

Paul Docker, Operations Director (aged 39)

Paul Docker joined Aero Inventory (UK) Limited as Procurement Director in November 2003 and was appointed as Operations Director on 1 July 2004. From 1981 to 1996, Mr Docker worked for Dunlop Aerospace and was involved in supplies management and business process re-engineering. In 1996, he moved to Smiths Group, where he held successive senior purchasing positions within Smiths Aerospace. In 1999, he became Materials Executive for Portex Limited, a large multi-site operation within Smiths Group Medical Division.

Nigel McCorkell, Non-executive Director (aged 57)

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. He is vice-chairman 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 Monday 22 November 2004 at 11.00 am, to consider and, if thought fit, pass the following resolutions which, in the case of resolution 8, will be proposed as a special resolution and, in the case of all the other resolutions, will be proposed as ordinary resolutions:

Ordinary business

1 To receive and adopt the company's accounts and the reports of the directors and the auditors for the period ended 30 June 2004.

2 To declare a final dividend of 3.0p per ordinary share.

3 To re-elect H C Bevan as a director.

4 To re-elect M P Dodge as a director.

5 To re-elect P M Docker as a director.

6 To re-appoint Horwath Clark Whitehill LLP 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 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, revoked or varied) 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 £65,182; 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 Section 89(1) 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 £19,554;

(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.

By order of the board
Martin Webster
Secretary

13 September 2004

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 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 20 November 2004 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 2004
Preliminary results	13 September 2004
Ex-dividend date	13 October 2004
Annual general meeting	22 November 2004
Payment of final dividend	16 December 2004
Interim results	March 2005
Financial year end	30 June 2005
Preliminary results	September 2005

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: +44 (0)870 162 3100. 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 Hugh Bevan (Finance Director) on +44 (0)20 8447 3303 or, by email, at hugh.bevan@aero-inventory.com

Summary five-year record

Year end: 30 June (£'000)	**2000**	**2001**	**2002**	**2003**	**2004**
Turnover	3,249	5,110	9,111	15,871	21,078
Operating profit	61	470	1,716	3,135	2,322
Net interest	(100)	35	(99)	(320)	(241)
Pre-tax profit/(loss)	(39)	505	1,617	2,815	2,081
Tax	4	(136)	(490)	(880)	(761)
Profit/(loss) after tax	(35)	369	1,127	1,935	1,320
Fully diluted EPS (p)	(0.81)	5.14	13.87	19.51	9.22
Dividends per share (p)	–	1.70	4.30	5.30	6.00
Shareholders' funds	3,132	4,925	7,741	18,106	33,624
Employees (average)	27	32	45	78	101

Note: These figures have been extracted from 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 on the Alternative Investment Market under the terms of a now-cancelled shareholders' agreement.

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