



Aero Inventory

Interim report 2007-08



INTERIM RESULTS

FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2007

HIGHLIGHTS OF THE SIX MONTHS

- Results now reported under International Financial Reporting Standards (IFRS) and in US dollars
- Turnover of US\$165.1 million, an increase of 91% over the corresponding period (2006: US\$86.3 million), reflecting in particular one and a half months of sales from the new ACTS contract and a full six month contribution from the Qantas contract
- Operating profit of US\$30.8 million, an increase of 90% over the corresponding period (2006: US\$16.2 million)
- Pre-tax profit of US\$22.7 million, an increase of 56% over the corresponding period (2006: US\$14.5 million)
- Basic EPS of 34.12 cents per share, an increase of 63% over the corresponding period (2006: 20.96 cents per share). Diluted EPS of 31.89 cents per share, an increase of 58% over the corresponding period (2006: 20.14 cents per share)
- Interim dividend of 6.0 pence per share (equivalent to approximately 12 cents per share), an increase of 33% over the corresponding period (2006: 4.5 pence per share)
- Net debt at 31 December of US\$309.2 million versus US\$111.8 million at 30 June 2007, reflecting increased stocks to support new contracts. New US\$425 million asset-backed lending facility announced in February, expandable to US\$500 million

CHAIRMAN'S STATEMENT

A year ago I reported that turnover in the first six months of the year was up 86%. In this period turnover is up a similar amount, at 91%. Operating profits grew by a 90% over the equivalent period of last year, leading to a very satisfactory increase of 56% increase in pre-tax profits despite substantial increases in operating and financial costs associated with this period of very rapid growth.

Our figures are reported for the first time under IFRS and in US dollars. The change in the currency is a logical step for a business that trades predominantly in US dollars and should give a clearer picture of our underlying performance.

Last year the Company paid an interim dividend of 4.5 pence per share (equivalent to 8.5 cents per share) and in view of the positive outlook for the current year and beyond the Board has decided to pay an interim dividend of 6.0 pence per share (equivalent to approximately 12 cents per share), a 33% increase over last year's figure. The dividend will be paid in sterling.

The final phase of the Qantas contract implementation went live in July 2007 and we signed our new contract with ACTS (formerly Air Canada Technical Services) in November 2007. These two contracts, taken together with our growing business with SR Technics and HAECO, have greatly strengthened our position within the sector. We are now concentrating on the detailed implementation of the ACTS contract. In the second half of the financial year we will be opening new facilities in Bahrain and Sharjah to support HAECO's expansion.

The Aero Inventory Long Term Incentive Plan was approved by shareholders and adopted by the Company in December 2007. It provides an important incentive to management to maximise the growth of the business and hence shareholder value, and provides substantial rewards if the Company's share price reaches 1500p per share by the time of the Annual General Meeting in 2010.

Nigel McCorkell

Chairman

CHIEF EXECUTIVE'S STATEMENT

Review of results

The signing of the ACTS contract in November 2007 has had a significant effect on the operating results for the first half of our financial year. Turnover for the six month period ended 31 December 2007 is up by 91% over the corresponding period. In addition to ACTS we have benefited from turnover from the Qantas contract for the full six month period compared to only three months in the corresponding period. There has also been growth at HAECO particularly from its business in China. The contracts with SR Technics have also grown compared to the corresponding period last year and we continue to expand our business with GMF AeroAsia in Jakarta.

As a company listed on AIM we are now required to present our results under IFRS. We have also decided to change our functional and presentational currency to the US dollar. The two principal adjustments arising from these changes are to show our capitalised IT development costs as an intangible asset rather than a tangible one, and to state inventories at the US dollar values at which they were purchased. All the figures in this statement are shown in US dollars including comparative figures from last year.

Operating profit increased from US\$16.2 million to US\$30.8 million, an increase of 90%. The operating margin remains at 19% despite a significant increase in operating expenses which have grown as we have opened and expanded our offices in Australia and in Los Angeles as well as in anticipation of the ACTS contract win.

Interest payable was US\$8.2 million (2006: US\$1.8 million). The increase reflects the write off of US\$1.5 million in respect of bank facility fees (relating to the replacement of the £80 million Barclays facility) and the increase in borrowings to finance the ACTS contract and additional investment in stock to support other existing contracts.

The pre-tax profit for the six months was US\$22.7 million (2006: US\$14.5 million). The tax charge was US\$6.5 million (2006: US\$4.6 million), which reflects an estimated effective annual rate of 28.7% (2006: 31.8 %).

On the basis of after tax earnings of US\$16.2 million (2006: US\$9.9 million) and the weighted average number of shares in issue during the period of 47,360,921 (2006: 47,188,999), basic

CHIEF EXECUTIVE'S STATEMENT CONTINUED

earnings per share were 34.12 cents per share (2006: 20.96 cents per share). Diluted earnings per share were 31.89 cents per share (2006: 20.14 cents per share).

The intangible assets on the balance sheet reflect the purchase of detailed historical demand and usage database rights from Qantas and ACTS, to be written off over the initial ten year contract terms. Intangible assets also include the capitalised costs relating to developments of our Parts Central IT system.

The period-end balance sheet shows increased stocks at US\$569.4 million (compared to US\$390.9 million at 30 June 2007). The increase from 30 June 2007 principally reflects the purchase from ACTS of stocks and further investment in stock to support the ACTS and Qantas contracts. In particular the ACTS contract revenue has been substantially ahead of original expectations and additional investment in stock has and continues to be required to support this.

Annualising half-year revenues, group sales are running at around 83% of period end stocks, a level similar to that achieved at the end of last financial year. This similar

level reflects the substantial investment in stocks necessary to support higher than expected sales to ACTS and the need, post implementation, to meet our contractual service levels for Qantas. However, although masked by the immediate needs associated with these two very large contracts, the amount of stock transferred between sites has increased very significantly and our sales of stock to non-contract customers from our new facility in Los Angeles are increasing rapidly.

Net bank debt at 31 December 2007 was US\$309.2 million (compared to US\$111.8 million at 30 June 2007). The movement since 30 June 2007 principally reflects the inventory purchase from ACTS as well as other stock investment on existing contracts to support business growth.

Dividend

In view of the strong performance of the business and the prospects for the full year the Board intends to pay an increased interim dividend of 6.0 pence per share, equivalent to approximately 12 cents per share (2006: 4.5 pence). This dividend will be paid on 29 May 2008

to shareholders on the share register on 2 May 2008 and will be paid in sterling.

New financing facility

In February 2008 we signed a new syndicated asset based lending facility and have thereby increased the size of our available banking facilities from £175 million (equivalent to \$356 million) to US\$425 million.

The new five year syndicated facility was led by Lloyds TSB Commercial Finance and is an asset based lending facility secured on Aero Inventory's stocks and trade debtors in the UK, Ireland, Canada, the United States, Hong Kong and Australia. The facility includes provision for its expansion from US\$425 million to US\$500 million.

Current trading and prospects

Business so far this financial year has been buoyant, with initial sales to ACTS substantially above our original expectations. As a consequence, Aero Inventory is well placed to achieve significant further sales and profits growth for the year, although higher-than-expected sales will inevitably involve further

investment in stock during the second half. While we continue to progress new business discussions in pursuit of our long-term goal of being the world's leading consumable aircraft parts service provider, our immediate focus now is upon the successful implementation of our new contract with ACTS and the delivery of consistently high levels of service to all of our contract customers after a period of very rapid growth.

Rupert Lewin
Chief Executive

CONSOLIDATED INCOME STATEMENT

SIX MONTH PERIOD ENDED 31 DECEMBER 2007

	Notes	6 months ended 31 December 2007 \$'000	6 months ended 31 December 2006 \$'000	Year ended 30 June 2007 \$'000
Revenue	3	165,129	86,340	246,981
Cost of sales		(105,981)	(57,365)	(164,223)
Net operating expenses		(28,327)	(12,757)	(29,907)
Operating profit		30,821	16,218	52,851
Interest receivable and similar income		–	106	792
Interest payable and similar charges		(8,155)	(1,818)	(8,058)
Profit before tax		22,666	14,506	45,585
Tax	4	(6,508)	(4,615)	(14,440)
Profit for the period		16,158	9,891	31,145
Basic earnings per share (cents)	6	34.12c	20.96c	65.96c
Diluted earnings per share (cents)	6	31.89c	20.14c	62.40c

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2007

	Notes	31 December 2007 \$'000	31 December 2006 \$'000	30 June 2007 \$'000
Non-current assets				
Intangible assets		56,986	30,755	36,284
Property, plant and equipment		3,871	2,955	3,695
Current assets				
Inventories		569,447	318,904	390,868
Trade and other receivables		69,458	47,302	52,625
Cash and cash equivalents		377	384	378
		639,282	366,590	443,871
Total assets		700,139	400,300	483,850
Current liabilities				
Trade and other payables		129,458	81,911	117,925
Bank overdraft	7	–	83,620	–
		129,458	165,531	117,925
Net current assets		509,824	201,059	325,946
Non-current liabilities				
Bank loan	7	309,570	–	112,169
Total liabilities		439,028	165,531	230,094
Net assets		261,111	234,769	253,756
Equity				
Share capital	9	1,008	999	1,005
Share premium account	9	211,120	209,221	210,281
Share based payment reserve	9	2,819	1,106	1,980
Retained earnings	9	46,164	23,443	40,490
Total equity		261,111	234,769	253,756

The interim results were approved by the board of directors on 17 March 2008.

CONSOLIDATED CASH FLOW STATEMENT

SIX MONTH PERIOD ENDED 31 DECEMBER 2007

	6 months ended 31 December 2007 \$'000	6 months ended 31 December 2006 \$'000	Year ended 30 June 2007 \$'000
Net cash out flow from operating activities	(151,016)	(109,898)	(121,205)
Investing activities			
Purchase of intangible assets	(25,169)	(30,875)	(39,646)
Purchase of property, plant and equipment	(1,208)	(896)	(2,115)
Net cash used in investing activities	(26,377)	(31,771)	(41,761)
Financing activities			
Net interest paid	(8,216)	(1,818)	(5,681)
Proceeds on issue of ordinary shares	839	21	1,026
Dividends paid	(10,484)	(5,818)	(10,218)
Repayment of borrowings	(113,349)	-	-
New bank loans raised	308,602	-	112,169
Net cash from/(used in) financing activities	177,392	(7,615)	97,296
Net decrease in cash and cash equivalents	(1)	(149,284)	(65,670)
Cash and cash equivalents at beginning of period	378	66,048	66,048
	377	66,048	66,048
Cash and cash equivalents/(net overdraft) at end of period	377	(83,236)	378

NOTES

TO THE CONSOLIDATED CASH FLOW STATEMENT
SIX MONTH PERIOD ENDED 31 DECEMBER 2007

	6 months ended 31 December 2007 \$'000	6 months ended 31 December 2006 \$'000	Year ended 30 June 2007 \$'000
a) Reconciliation of operating profit to net cash outflow from operating activities			
Operating profit	30,821	16,218	52,851
Adjustments for:			
Depreciation of property, plant and equipment	624	619	1,028
Amortisation of intangible assets	4,875	983	2,615
Cost of share based payment	623	344	839
Increase in provisions	551	876	1,367
Operating cash flows before movements in working capital	37,494	19,040	58,700
Increase in inventories	(179,130)	(145,115)	(216,382)
Increase in debtors	(16,260)	(799)	(6,066)
Increase in creditors	10,038	17,033	45,441
Cash absorbed by operations	(147,858)	(109,841)	(118,307)
Income taxes paid	(3,158)	(57)	(2,898)
Net cash out flow from operating activities	(151,016)	(109,898)	(121,205)

NOTES

TO THE CONSOLIDATED INTERIM RESULTS

SIX MONTH PERIOD ENDED 31 DECEMBER 2007

1. General information

The information for the year ended 30 June 2007 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of the statutory financial statements for that year has been delivered to the Registrar of Companies. The auditors' report on those financial statements was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2. Accounting policies

a) Basis of accounting

These interim statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs). The disclosures required by IFRS 1 concerning the transition from United Kingdom Generally Accepted Accounting Practice (UK GAAP) to IFRSs are given in note 10.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies of the entity concerned, generally accompanying a shareholding of more than one half of the voting rights.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when title has passed to the customer.

d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2. Accounting policies continued

e) Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in the United States (US) dollar, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

f) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED INTERIM RESULTS CONTINUED

2. Accounting policies continued

g) Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of assets, less estimated residual value, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold improvements	- over the unexpired term of the lease
Fixtures and equipment	- 33 $\frac{1}{3}$ % – 50%
Motor vehicles	- 30%

h) Intangible assets

Database rights

Database rights are included at cost and amortised on a straight-line basis over a period of 10 years which is their estimated useful economic life. Provision is made for any impairment.

Software assets

Internal staffing costs relating to the development of IT systems are capitalised and amortised over a period of 3 years which is their estimated useful economic life. Provision is made for any impairment.

i) Impairment of tangible and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2. Accounting policies (i) continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

j) Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving stocks. Cost is calculated by averaging purchase prices or by reference to supplier list prices adjusted to reflect discounts obtained where appropriate, and include, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

k) Financial instruments

Financial assets and financial liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

l) Finance costs

Finance costs are amortised over the term of the instrument at a constant rate on the carrying amount.

NOTES TO THE CONSOLIDATED INTERIM RESULTS CONTINUED

2. Accounting policies continued

m) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

n) Share-based payments

The group has applied the requirements of IFRS 2, Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

3. Business segments

All turnover arose from the activity of procurement and inventory management for the aerospace industry.

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

	6 months ended 31 December 2007 \$'000	6 months ended 31 December 2006 \$'000	Audited year ended 30 June 2007 \$'000
Sales to contracted customers under long term supply agreements	161,314	83,931	244,452
Other Sales	3,815	2,409	2,529
Group Total	165,129	86,340	246,981

3. Business segments continued

Geographical analysis is presented below:

	North America		Asia Pacific		UK, Europe & Middle East		Group Total	
	6 months ended 31 December		6 months ended 31 December		6 months ended 31 December		6 months ended 31 December	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Turnover	24,660	–	98,837	53,102	41,632	33,238	165,129	86,340
Balance sheet								
Assets								
Segment assets	172,495	–	349,063	258,187	178,581	142,113	700,139	400,300
Liabilities								
Segment liabilities	59,201	–	23,644	29,224	356,183	136,307	439,028	165,531

4. Tax

	6 months ended 31 December 2007 \$'000	6 months ended 31 December 2006 \$'000	Year ended 30 June 2007 \$'000
UK corporation tax	6,920	4,393	14,034
Deferred tax – current period	(412)	(177)	(403)
Adjustment in respect of prior period	–	399	809
	6,508	4,615	14,440

Corporation tax for the interim period is charged at 30% (2006: 30%), representing the best estimate of the weighted average annual corporate tax expenses for the full fiscal year.

NOTES TO THE CONSOLIDATED INTERIM RESULTS CONTINUED

5. Dividends

	6 months to 31 December	
	2007	2006
	\$'000	\$'000
Amounts recognised as distributions to equity holders in the period		
Final dividend for the year ended 30 June 2007 of 10.5 pence per share, equivalent to 20.3 cents per share (2006: 6.7 pence per share, equivalent to 11.9 cents per share) per share	10,149	6,189

A dividend of 6 pence per share (equivalent of approximately 12 cents per share) was proposed after the balance sheet date but has not been recognised as a liability at the balance sheet date. This will be paid on 29 May 2008 to shareholders on the share register on 2 May 2008.

6. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	6 months to 31 December	
	2007	2006
	\$'000	\$'000
Earnings		
Earnings for the purpose of basic earnings per share being Net profit being attributable to equity holders of the parent	16,158	9,891
Earnings for the purposes of diluted earnings per share	16,158	9,891
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	47,360,921	47,188,999
Effect of dilutive potential ordinary shares:		
Share options	3,314,865	1,932,051
Weighted average number of ordinary share for the purposes of diluted earnings per share	50,675,786	49,121,050

7. Bank overdrafts and loans

	31 December 2007 \$'000	31 December 2006 \$'000	30 June 2007 \$'000
Bank overdrafts	–	(83,620)	–
Bank loans	(309,570)	–	(112,169)
	(309,570)	(83,620)	(112,169)
The borrowings are repayable as follows:			
On demand or within one year	–	(83,620)	–
In the second year	–	–	–
In the third to fifth years inclusive	(309,570)	–	(112,169)
Less: Amount due for settlement within 12 months (shown under current liabilities)	–	(83,620)	–
Amount due for settlement after 12 months	(309,570)	–	(112,169)

8. Share-based payment

The Company provides benefits to employees (including Directors) of the Company in the form of share-based payment transactions (share options), whereby employees render services in exchange for rights over shares ('equity-settled transactions'). The fair value of the employee services rendered is determined by reference to the fair value of the options granted.

All share options are valued using an option-pricing model (Black-Scholes). This fair value is charged to the profit and loss account over the vesting period of the share-based payment scheme, with the corresponding increase in equity. The value of the charge is adjusted in the profit and loss account over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustment made in equity.

The Group has recognised a total expense of \$623,000 relating to equity settled share option scheme transactions in the first half of 2007/08 (\$355,000 in the six month period to 31 December 2006; \$839,000 in the year to 30 June 2007).

NOTES TO THE CONSOLIDATED INTERIM RESULTS CONTINUED

9. Reserves

	Share capital \$'000	Share premium account \$'000	Share based payment reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 July 2007	1,005	210,281	1,980	40,490	253,756
Profit for the financial period	-	-	-	16,158	16,158
Dividends paid	-	-	-	(10,484)	(10,484)
Share based payments	-	-	839	-	839
Shares issued	3	839	-	-	842
At 31 December 2007	1,008	211,120	2,819	46,164	261,111

10. Explanation of transition to IFRS

IFRS 1, First time adoption of International Financial Reporting Standards, sets out the procedures that the Group must follow as it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its accounting policies at 31 December 2007 and, in general, apply these retrospectively to determine the IFRS opening balance sheet as its date of transition, 1 July 2006.

Key changes in accounting policies:

(a) The effects of changes in foreign exchange rates

The guidance for the determination of the Group's functional currency is more prescriptive under IAS 21 The effect of changes in foreign exchange rates. Under IAS 21, the primary indicators of a functional currency are determined by; the currency that mainly influences sales prices where it is often the currency that the sales prices are denominated in and settled in, and the currency in which the costs of providing goods and services are denominated and settled. Accordingly, as the Group predominately trades in US dollars, it has changed functional and presentational currency under IFRS retrospectively at 1 July 2006 from sterling to US Dollars.

(b) Intangible assets

Under UK GAAP, software assets were included as part of the cost of property, plant and equipment whereas under IFRS, unless they are integral to another fixed asset, they are classified as intangible assets. In the balance sheet, a reclassification of \$11,864,000 from property, plant and equipment to intangible assets was reflected under IFRS at 30 June 2007 (1 July 2006 \$755,000). There was no impact on either profit before taxation or total net assets under IFRS.

10. Explanation of transition to IFRS continued

(c) Other - Employee benefits

Under IAS 19 there is a requirement to recognise the monetary value of employee benefits accruing to employees but not yet settled; typically holiday pay. This required the present value of employee benefits to be paid in future for services to be provided up to the reporting date. Employee's holiday entitlement is aligned to the calendar year, accordingly a holiday accrual has been recognised of \$212,000 as at 31 December 2007 (1 July 2006 - \$242,000). The impact on the income statement is a increase in profit before tax of \$62,000 for the year to 30 June 2007.

Reconciliations of the adjustments to profit and loss for the reported periods are shown below:

Reconciliation of profit for six months ended 31 December 2006

	UK GAAP £'000	Functional currency	Sub Total \$'000	Other IFRS Adjustments \$'000	IFRS \$'000
Revenue	45,555	40,785	86,340	-	86,340
Operating expenses	(36,808)	(33,296)	(70,104)	(18)	(70,122)
Operating profit	8,747	7,489	16,236	(18)	16,218
Interest receivable and similar income	56	50	106	-	106
Interest payable and similar charges	(959)	(859)	(1,818)	-	(1,818)
Profit before tax	7,844	6,680	14,524	(18)	14,506
Tax	(2,435)	(2,185)	(4,620)	5	(4,615)
Profit for period	5,409	4,495	9,904	(13)	9,891

NOTES TO THE CONSOLIDATED INTERIM RESULTS CONTINUED

10. Explanation of transition to IFRS continued

Reconciliation of profit for year ended 30 June 2007

	UK GAAP £'000	Functional currency	Sub Total \$'000	Other IFRS Adjustments \$'000	IFRS \$'000
Revenue	127,817	119,164	246,981	–	246,981
Operating expenses	(97,281)	(96,911)	(194,192)	62	(194,130)
Operating profit	30,536	22,253	52,789	62	52,851
Interest receivable and similar income	410	382	792	–	792
Interest payable and similar charges	(4,170)	(3,888)	(8,058)	–	(8,058)
Profit before tax	26,776	18,747	45,523	62	45,585
Tax	(8,244)	(6,177)	(14,421)	(19)	(14,440)
Profit for period	18,532	12,570	31,102	43	31,145

10. Explanation of transition to IFRS continued

Reconciliation of balance sheet at 30 June 2007 (date of last UK GAAP financial statements)

Consolidated Balance Sheet

As at 30 June 2007	UK GAAP £'000	Functional currency	Sub Total \$'000	Other IFRS Adjustments \$'000	IFRS \$'000
Assets					
Non-current assets					
Intangible assets	13,184	11,236	24,420	11,864	36,284
Property, plant and equipment	8,124	7,435	15,559	(11,864)	3,695
Current assets					
Inventories	216,098	174,770	390,868	–	390,868
Trade and other receivables	26,191	26,380	52,571	54	52,625
Cash at bank and at hand	188	190	378	–	378
Total assets	263,785	220,011	483,796	54	483,850
Liabilities					
Current liabilities					
Trade and other payables	(58,638)	(59,107)	(117,745)	(180)	(117,925)
Non-current liabilities					
Bank loan	(55,861)	(56,308)	(112,169)	–	(112,169)
Total liabilities	(114,499)	(115,415)	(229,914)	(180)	(230,094)
Net assets	149,286	104,596	253,882	(126)	253,756
Equity					
Share capital	592	413	1,005	–	1,005
Share premium account	124,020	86,261	210,281	–	210,281
Share based payment reserve	1,043	937	1,980	–	1,980
Retained earnings	23,631	16,985	40,616	(126)	40,490
Total equity	149,286	104,596	253,882	(126)	253,756

NOTES TO THE CONSOLIDATED INTERIM RESULTS CONTINUED

10. Explanation of transition to IFRS continued

Reconciliation of balance sheet at 31 December 2006

As at 31 December 2006	UK GAAP €'000	Functional currency	Sub Total \$'000	Other IFRS Adjustments \$'000	IFRS \$'000
Assets					
Non-current assets					
Intangible assets	13,896	11,844	25,740	5,015	30,755
Property, plant and equipment	4,205	3,765	7,970	(5,015)	2,955
Current assets					
Inventories	178,935	139,969	318,904	–	318,904
Trade and other receivables	23,981	23,242	47,223	78	47,301
Cash and cash equivalents	196	188	384	–	384
Total assets	221,213	179,008	400,221	78	400,299
Current liabilities					
Trade and other payables	(41,777)	(39,873)	(81,650)	(260)	(81,910)
Bank loan	(42,683)	(40,937)	(83,620)	–	(83,620)
Total liabilities	(84,460)	(80,810)	(165,270)	(260)	(165,530)
Net assets	136,753	98,198	234,951	(182)	234,769
Equity					
Share capital	589	410	999	–	999
Share premium account	123,503	85,718	209,221	–	209,221
Share based payment reserve	661	445	1,106	–	1,106
Retained earnings	12,000	11,625	23,625	(182)	23,443
Total equity	136,753	98,198	234,951	(182)	234,769

10. Explanation of transition to IFRS continued

Reconciliation of equity at 1 July 2006 (date of transition to IFRSs)

As at 30 June 2006	UK GAAP £'000	Functional currency	Sub Total \$'000	Other IFRS Adjustments \$'000	IFRS \$'000
Assets					
Non-current assets					
Intangible assets	–	–	–	755	755
Property, plant and equipment	1,581	1,204	2,785	(755)	2,030
Current assets					
Inventories	103,794	70,871	174,665	–	174,665
Trade and other receivables	25,210	20,587	45,797	73	45,870
Cash and cash equivalents	36,364	29,684	66,048	–	66,048
Total assets	166,949	122,346	289,295	73	289,368
Liabilities					
Current liabilities					
Trade and other payables	(31,872)	(26,007)	(57,879)	(242)	(58,121)
Bank loan	–	–	–	–	–
Non-current liabilities					
Provision for liabilities and charges	–	–	–	–	–
Total liabilities	(31,872)	(26,007)	(57,879)	(242)	(58,121)
Net assets	135,077	96,339	231,416	(169)	231,247
Equity					
Share capital	589	410	999	–	999
Share premium account	123,492	85,729	209,221	–	209,221
Share based reserve	609	497	1,106	–	1,106
Retained earnings	10,387	9,703	20,090	(169)	19,921
Total equity	135,077	96,339	231,416	(169)	231,247

11. Availability of information

Copies of this announcement are available from the company secretary at 30 Lancaster Road, New Barnet, Hertfordshire, EN4 8AP.

INDEPENDENT REVIEW REPORT

TO AERO INVENTORY PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2007 which comprises the income statement, the balance sheet, the cash flow statement and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 2, the annual financial statements of the group will be prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with the accounting policies the group intends to use in preparing its next annual financial statements.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2007 is not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditor

17 March 2008

Reading, United Kingdom

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