Directors' Report

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

Business activity

The principal activities of the Group are the provision of engineering and technological services and strategic consulting to industry, commerce and other agencies. A review of the Group's operations and future prospects is covered in the Chairman's Statement and the Chief Executive's Review. A geographical turnover analysis is given in note 2 to the financial statements.

Dividends

The directors propose a final dividend of 6.3p (2002 – 6.0p) per share, amounting to £3,137,000, payable on 21 November 2003 to shareholders on the register on 24 October 2003. The final dividend proposed will make a total of 9.0p (2002 – 8.6p) per share for the year.

Donations

During the year, the Group made charitable donations totalling £18,052 (2002 – £22,950). There were no political donations in either year.

Directors

The directors who served on the Board and on Board Committees during the year were:

*Sir Noel Davies, BSc, FCGI, CEng, FIMechE

*P T Ward

*Professor J P Percy, CBE, LLD, CA

*J M Harper, MSc, CCMI, FRAeS (appointed 24 June 2003)

R J Westhead, FCA

A R Goodburn, FCA

C R Bates, BSc, FCA

J W Holt, BEng, MBA

S Parker (appointed 1 August 2002)

G A Andrews, BEng (appointed 1 January 2003)

Dr. C Hickman, BSc, CEng, FIMech E (appointed 1 January 2003)

*non-executive

Sir Noel Davies is retiring from the Board on 31 December 2003 and will be succeeded as Chairman by Marcus Beresford. A resolution (resolution 6) appointing Marcus Beresford as a director of the Company will be put to the members at the Annual General Meeting.

Board committees

Audit: J P Percy (Chairman); Sir Noel Davies; P T Ward; J M Harper

Remuneration: Sir Noel Davies (Chairman); P T Ward; J P Percy; J M Harper

Nomination: Sir Noel Davies (Chairman); P T Ward; J P Percy; J M Harper; R J Westhead

Details of the Board of Directors and Board Committees can be found on pages 36 and 37.

Sections 80 and 95 authorities

The directors will seek to renew authorities under Sections 80 and 95 of the Companies Act 1985 at the Annual General Meeting, resolutions 11 and 19, empowering them respectively to allot shares and to allot shares for cash otherwise than pro-rata to existing shareholdings, in both cases subject to specified limits and periods as stated in the notice.

The authority to allot shares would be in respect of ordinary shares with a maximum nominal value of £2,469,248, which represents 19.8% of the issued ordinary share capital at the date hereof. The directors have no present intention to exercise this authority, but will then have flexibility for any suitable opportunities for expansion as and when they arise.

The maximum nominal value which may be allotted for cash, otherwise than pro-rata to existing shareholdings, would be £623,538, equivalent to 5% of the issued ordinary share capital at the date hereof.

No issue will be made which would effectively alter the control of the Company, or the nature of its business, without the prior approval of the shareholders in a general meeting.

Purchase of own shares

The existing Articles permit the Company to buy back its own shares with authority from its members and resolution 20 to this effect will be proposed at the Annual General Meeting. The directors are seeking to renew the authority to buy back up to 10% of its issued shares, which they will exercise only if circumstances arise in which they consider such purchases to be in the interests of the shareholders generally and earnings per share ("eps") can be improved further. Performance targets, based on eps, attaching to employee incentive schemes will be adjusted accordingly if the authority is exercised.

Authority for political donations and expenditure

It is not the policy of the Company or its subsidiaries to make donations to political parties and the directors have no intention of changing that policy. However, as a result of the wide definitions in the Political Parties, Elections & Referendums Act 2000 (the "Act"), which provides that donations to EU political organisations or EU political expenditure by a company must be authorised in advance by shareholders, normal expenditure (such as expenditure on organisations concerned with matters of public policy, law reform and representation of the business community) and business activities (such as communicating with the Government and political parties at local, national and European level) might be construed as political expenditure or as a donation to a political organisation and fall within the restrictions of the Act.

Resolutions 13 to 18 do not purport to authorise any particular donation or expenditure but are expressed in general terms as required by the Act and are intended to authorise normal donations and expenditure. If passed, they will allow the Company and its subsidiaries, Ricardo UK Limited, Ricardo Tarragon Limited, Ricardo GmbH., IFT Ingenieurgesellschaft für Fahrzeugtechnik mbH, IFT-Prüftechnik GmbH and Prototechnik GmbH Automobilteile-Prototypentechnik to make donations to EU political organisations and to incur EU political expenditure (as defined in the Act) up to an aggregate limit of £25,000 each in each financial year of the Company, with such authority expiring on 7 November 2006, whilst avoiding, because of the uncertainty over the definitions used in the Act, inadvertent infringement of the Act. Any EU political donation made or EU political expenditure incurred which is in excess of £200 will be disclosed in the Company's Annual Report for next year, as required by the Act. The authority will not be used to make political donations within the normal meaning of that expression.

Employee involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

Substantial shareholders

The Company is informed that, at 10 September 2003, the following are holders of more than 3% of the Company's issued share capital:

Non-beneficial	% of issued share capital	number of shares
Morley Fund Management Ltd	7.88	3,932,660
Standard Life	6.91	3,449,497
Scottish Widows Investment Partnership Ltd	5.72	2,856,044
M&G Investment Management	5.43	2,708,664
Legal and General Investment Management	4.85	2,422,825
Henderson Global Investors	4.25	2,122,469
ISIS Asset Management PLC	4.19	2,094,977
Schroder Investment Management Limited	3.76	1,879,586
Aegon Asset Management	3.67	1,833,229
Deutsche Asset Management	3.21	1,601,367

Social and Environmental Issues ("S and E")
Environmental

All major facilities within the Group have been certified to ISO 14001, the Environmental Management System standard. This has been achieved by a commitment from the Board that the environmental impact of the Group's facilities be kept to a minimum. The Board is committed to continuous improvement in environment impacts and makes its policy widely available via notice boards and its intranet and to the public via the www.ricardo.com website. The drivers for the policy are the need to continually improve and be good citizens and responsible members of the local communities in which we operate, as well as many of our clients requiring accreditation to ISO 14001 for their key suppliers. The application of the policy is described by appropriate processes and procedures as part of the quality system in each division. Many of these are closely linked to both quality and health and safety procedures. Best practice is shared between divisions via discussions between Quality Managers. Verification under ISO 14001 is by 6 monthly surveillance visits from Lloyds Register Quality Assurance and the internal technical audit team. It is preferred, as a minimum, that suppliers have both ISO 9001:2000 and ISO 14001.

Ricardo has three principal areas of environmental impact. The positive impacts are based around the core business of engineered automotive products for the future where key business drivers are emissions, fuel consumption and noise reduction. Examples of this include Ricardo and client funded projects where we develop technology to meet anticipated emissions and fuel economy requirements in the future, as well as engineering products for current and forthcoming legislation across the world.

Examples include:

- The i-MoGen mild hybrid vehicle from our own R&D
- An Environmental Protection Agency ("EPA") contract at Ricardo Inc on advanced hybrid technologies
- A new gasoline engine concept delivering diesel levels of fuel economy

- Dual clutch transmission development leading to automatic transmissions enabling improved fuel consumption
- New software tools to optimise designs for reduced emissions and fuel consumption
- A collaborative research programme to investigate gasoline Euro 4 levels of emissions from a diesel vehicle
- Development of advanced heavy duty after treatment systems

As a result of this level of expertise, Ricardo is often asked to provide strategic advice to commercial and governmental organisations to support product or regulation strategy development.

To support this positive impact Ricardo also supplies information services to clients covering current and future emission regulations in an on-line product called EMLEG.

Material selection is the second key impact. Ricardo supports the EC End of Life Directive via close co-operation with its clients in selecting and testing materials for products it designs and develops. These decisions are normally led from client corporate standards for materials and manufacturing processes.

The third impact area is the operation of the business. Our testing activities use fuels to support the positive impacts and meet customer requirements. R&D on improving test methods leads to reducing fuel requirements, particularly in reducing the amount of vehicle testing in calibration programmes. Other impacts include the conventional waste streams which are monitored to identify potential improvement opportunities. Higher risk parts of the facilities such as fuel stores have containment and inspection regimes which meet local requirements. Examples of improvement projects include completing the removal of halon gas from test cell fire suppression systems and increasing the number of regenerative dynamometers used in test beds. Good relationships are maintained with national and local regulatory organisations such as the Environment Agency and Environmental Health Departments in the UK and the EPA in the US. Processes are in place to keep up to date on regulatory issues. Staff training in health, safety and environmental matters is a priority and is reviewed annually as part of normal appraisal processes.

Health and safety (H&S)

We regard local legislation as the minimum standard acceptable in our divisions and continue to raise H&S standards above these levels where this is justified. In several divisions, we have taken initiatives to train senior managers in H&S with a view to improving performance and awareness of current and anticipated legislation. H&S activities are verified by regular internal audits and inspections and periodic external audit by the British Safety Council in the UK and Occupational Health and Safety Administration in the US.

Equal opportunities

In the USA there is a very proactive approach to complying with the Equal Employment Opportunity Commission requirements and Affirmative Action Plans which are focused towards equal career enhancement opportunities for all staff and recruits. Similar policies exist in Europe to comply with European law.

Charitable and community activity

There are also policies on helping charities and working with local communities. The divisions normally support local activity, particularly where employees participate in fundraising or supportive activities. Examples include employees acting as school governors, use of facilities for charitable activities, supporting local Young Enterprise Schemes and sponsoring activities in which we take part, such as the Italian Job where 3 company-owned mini cars are driven from Italy to the UK. The 2002 event raised £5,500 for the National Children's Home, mainly from staff sponsorship.

The Chief Executive is responsible for S and E issues at Board level and this is delegated to Divisional Managing Directors at an operational level.

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The operating companies are responsible for agreeing with suppliers the terms of payment at the start of business, ensuring that suppliers are aware of the terms of payment and to make payments in accordance with their contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year to 30 June 2003 and the amount owed to its trade creditors at 30 June 2003, was 34.5 days (2002: 36.2 days).

Auditors

Following a change in the legal status of the auditors to a Limited Liability Partnership (LLP), on 1 January 2003, PricewaterhouseCoopers resigned as auditors on 18 February 2003 and the directors appointed PricewaterhouseCoopers LLP in their place. In accordance with the Companies Act 1985, special notice has been received of the resolution to reappoint PricewaterhouseCoopers LLP (resolution 10).

By order of the Board

M Wightman

Secretary

22 September 2003

General policy

The remuneration of the executive directors is set by the Remuneration Committee in accordance with a remuneration policy determined by the board upon recommendation from the committee. This policy has remained unchanged during the year ended 30 June 2003.

The Committee, which consists solely of the non-executive directors of the company (whose biographical details are given on page 14), determines the detailed terms of service of the executive directors, including basic salary, incentives and benefits and the terms upon which their service may be terminated.

Each non-executive director is appointed for a period of two years. Apart from this and any shareholdings in the Company (details of which are given on page 34), the non-executive directors have no personal financial interest in the Company, no potential conflict of interest arising from cross directorships and no day-to-day involvement in the running of the Company.

During the year the Committee took advice from Watson Wyatt LLP who are an independent firm of compensation and benefit consultants in respect of executive directors' salaries and long-term incentives.

Ricardo's remuneration policy for executive directors is designed to attract, retain and motivate executives of the highest calibre required to ensure the Group is managed successfully to the benefit of shareholders. In setting remuneration levels the Committee takes into consideration the remuneration practices in other UK companies of a similar size.

The fees of the non-executive directors are set at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs.

Shareholders will be given the opportunity to approve the directors' remuneration report at the forthcoming Annual General Meeting (Resolution 12).

Executive directors' remuneration

Basic salary

This is based on a number of factors including market rates together with the individual director's experience, responsibilities and performance. Individual salaries of directors are subject to review annually on 1 July.

Other cash payments

These consist of a car allowance, where the director has purchased his own car for use on Company business, and an amount to offset the tax payable on life assurance premia for cover in excess of the Inland Revenue CAP ("the CAP"). Also included is compensation which is paid to C R Bates, S Parker, G A Andrews and C Hickman, all of whom are not in a funded approved retirement benefit scheme, being an amount equal to 15% of the difference between the CAP and each director's basic salary.

Share based award

Represents the cash value of shares to be awarded to S Parker as part of an incentive to join the Company.

Performance related bonus

The executive directors participate in a performance related bonus scheme based on the Group's basic earnings per share performance, as adjusted for goodwill amortisation ("adjusted eps") as appropriate. A significant proportion of the remuneration of executive directors is linked to performance. The Remuneration Committee has set targets and determined bonus payments by performance against these targets. The Remuneration Committee has decided that it is in the best interests of both the Company and its shareholders to set bonus targets specifically related to corporate performance as reflected in adjusted eps and takes the view that the particular parameters set are very demanding. Depending on adjusted eps performance, payments are made annually to executive directors as appropriate. R J Westhead's and A R Goodburn's performance related bonuses are totally linked to Group performance. The bonus is calculated by taking the average adjusted eps pertaining over the previous three years, applying a growth factor of 7.5% together with the increase in the Retail Price Index for the current year and comparing that figure ("the target") with the current adjusted eps. If the target is met a bonus of 30% of basic salary is paid. The bonus is calculated based on a sliding scale from 0.4p below the target to 1.2p above. No bonus is paid if the current adjusted eps is 0.4p or more below the target. If the current adjusted eps is 1.2p or more above the target, the maximum bonus of 50% of basic salary is payable. A bonus of 48.33% (2002: 50%) was achieved for the year ended 30 June 2003.

C R Bates, J W Holt, G A Andrews and C Hickman can also earn a maximum bonus of 50% of basic salary based on a combination of the improvement in profit before tax of their respective divisions and the Group. If maximum bonuses were to be earned, the Group element would equate to one third of 50% of basic salary. Local factors are taken into consideration in determining improvement in profit of their divisions. For the year ended 30 June 2003, C R Bates and J W Holt achieved bonuses of 13.9% (2002: 35.4%) and 4.8% (2002: 20%) of their respective basic salaries and G A Andrews and C Hickman achieved bonuses of 13.7% and 22.3% of their respective basic salaries.

S Parker is guaranteed a bonus of 50% of his basic salary for his first year of employment, *pro rata* to the number of complete months of service in that year.

For executive directors, total remuneration consists of performance related and fixed elements. Considerable emphasis is put on the performance related elements. As a proportion of total potential remuneration c. 55% is performance related whilst c. 45% is fixed.

Additional incentives – S Parker

S Parker, on commencing employment with the Company, was allocated a discretionary conditional share award equivalent to £100,000. The number of shares, which will vest in equal amounts on the first, second and third anniversaries of the employment commencement date, is determined by reference to the average share price of Ricardo shares over the 5 working days prior to that date. The shares which have not vested will be forfeited if he leaves or his employment is terminated by the Company for gross misconduct. Dividends on the shares will be converted into shares and allocated as additional shares on the appropriate anniversaries.

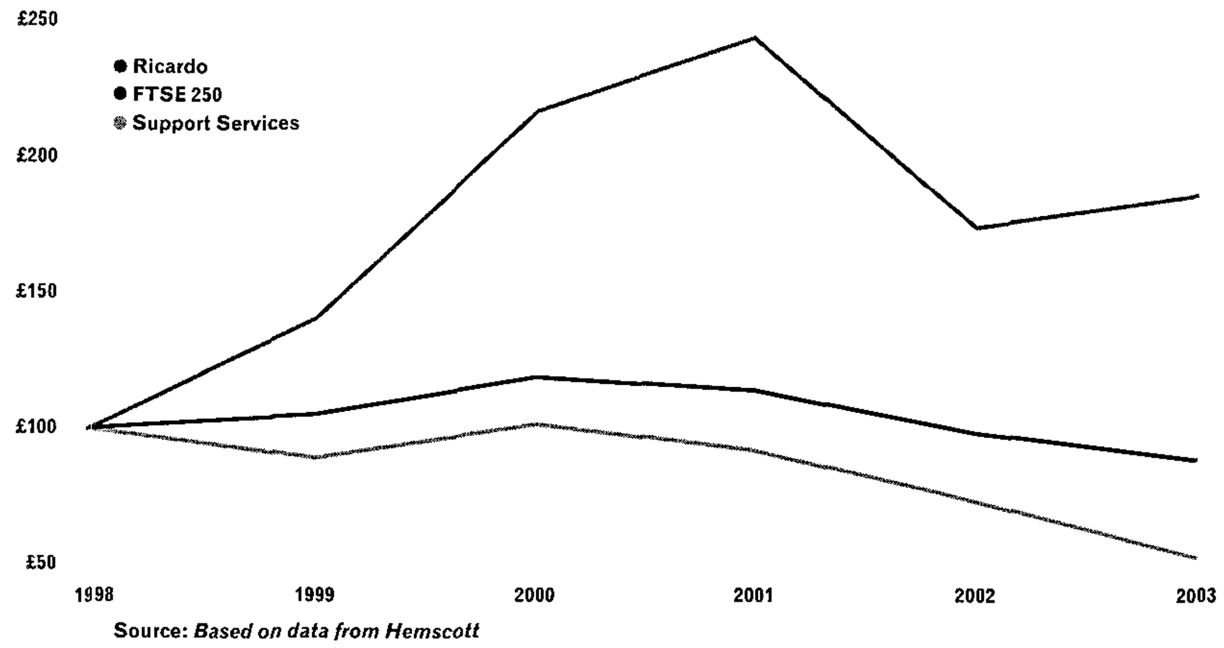
There is also an entitlement to participate in a Performance Incentive Plan for the first three years of employment based on agreed targets. At the end of each performance cycle, except the first, 50% of any award is made in cash whilst the remaining 50% is used to purchase shares which vest two years after the end of the relevant performance cycle. For the first performance cycle any award will be in cash only. As the agreed targets were met, S Parker is entitled to a payment of £145,000, which is included in the performance related bonus column of the total remuneration table on page 29. Dividends on the shares vested will be rolled up and converted into shares.

Benefits in kind

These comprise principally car benefits, medical and life assurance cover.

Performance graph

The graph below shows the Group's total shareholder return (tsr – share price movement plus dividends reinvested), over the last five financial years compared to the performance both of the "Support Services" sector and of the FTSE 250 index. In the directors' opinion, the "Support Services" sector represents the most appropriate index against which the tsr should be measured and the FTSE 250 Index has been selected to provide a more broadly-based comparator.



Source: ***Based on data from Hemscott***

Total remuneration

This table is auditable information.

	Basic salary £'000	Other cash payments £'000	Share based award £'000	Performance related bonus £'000	Benefits in kind £'000	**Total 2003 £'000**	Total 2002 £'000
R J Westhead	285	11	–	138	52	**486**	444
A R Goodburn	172	15	–	83	9	**279**	257
C R Bates	145	11	–	20	17	**193**	195
J W Holt	186	–	–	9	5	**200**(e)	234
S Parker(a)	193	26	33	241	1	**494**	–
G A Andrews(b)	69	6	–	9	9	**93**	–
C Hickman(b)	69	10	–	15	15	**109**	–
J R Needham(c)	–	–	–	–	–	**–**	130
Sir N Davies	80	–	–	–	–	**80**	75
P T Ward	28	–	–	–	–	**28**	28
J P Percy	30	–	–	–	–	**30**	30
J M Harper(d)	1	–	–	–	–	**1**	–
	1,258	79	33	515	108	**1,993**	1,393

(a) Appointed 1 August 2002

(b) Appointed 1 January 2003

(c) Resigned 1 January 2002

(d) Appointed 24 June 2003

(e) J W Holt was remunerated in US dollars. For the purpose of the report his emoluments have been translated at US$1.5856/£(2002: US$1.4410/£).

Pensions

Executive directors may join the Group Tier of the Ricardo Group Pension Fund ("RGPF") at the invitation of the Company. The plan is established under trust, contracted out of the State Earnings Related Pension Scheme and approved by the Inland Revenue under the Income and Corporation Taxes Act 1988. All the executive directors, with the exception of J W Holt, who is a member of the Supplemental Executive Retirement plan, which is a defined contribution plan, are members of the RGPF.

The Group Tier of the RGPF provides directors with a pension of up to two thirds of basic salary (up to the CAP) on retirement at age 62 after 20 or more years service. Members' contributions are required at the rate of 7% of pensionable earnings rising to 8% from 1 July 2003. Performance related bonuses do not form part of pensionable earnings.

At retirement, members may commute a portion of their pension for a cash sum. Retirement before the pension age is subject to actuarial reduction except those retiring between the ages of 60 and 62. The right to a pension on early retirement is only available with the consent of the Company and the Trustees and the individual must be over 50 or retiring due to ill health.

The total pension paid by the fund in excess of the guaranteed minimum pension will increase annually at the rate of 5% compound or by the rise in the Retail Prices Index if lower. This is subject to an overriding guarantee that pension increases will not be less than 3% per annum compound increase on the total pension accrued to 30 June 2002. Pension benefits accrued from 1 July 2002 are not subject to this guaranteed minimum increase.

On death in service, a lump sum of four times annual salary at date of death is payable, together with a spouse's pension of 35% of annual salary and a pension per child of 12½% of annual salary, subject to a maximum limit of 25%, until the child attains the age of 21. On death after retirement, a spouse's pension is paid at 50% of the member's pre commutation pension and if death occurs within five years after retirement a lump sum equal to the member's monthly rate of pensionable pay by the fund at the date of death multiplied by the number of unpaid monthly instalments to the end of that five year period.

Under their directors' services agreements, R J Westhead and A R Goodburn will, in addition, become entitled to receive cash lump sums based on the additional notional cost of increasing their RGPF pensions to 15.94/30 and 17.92/30 of their respective uncapped pensionable earnings, if they serve until their normal retirement age of 62. The Company is funding these additional benefits by making contributions to funded unapproved retirement benefit schemes ("FURBS") by which additional retirement provision is made on money purchase principles. Where the FURBS does not provide the intended lump sum, the Company will provide a shortfall sum to the director on retirement. Under these special arrangements, Company contributions are treated as a taxable benefit in kind and the directors are compensated for the additional personal tax liability arising. For the year ended 30 June 2003 this additional compensation amounted to £137,000 (2002: £63,000) and £50,000 (2002: £31,000) for R J Westhead and A R Goodburn respectively. The cash payment received by each director is not included in the total remuneration table on page 29 for either year.

These pension arrangements for R J Westhead and A R Goodburn are collectively considered to be of a defined benefit nature and are described in the tables below:

The following tables are auditable information.

RGPF

	Additional accrued pension benefits earned in the year	Additional accrued pension benefits earned in the year (excluding inflation)	Accrued pension entitlement	**Transfer value at 30 June 2003**	Transfer value at 30 June 2002	Increase in transfer value less directors' contributions	Transfer value of increase in accrued benefits less directors' contributions (excluding inflation)
	£'000	*£'000*	*£'000*	***£'000***	*£'000*	*£'000*	*£'000*
R J Westhead	4	3	34	**479**	393	66	47
A R Goodburn	4	3	31	**323**	277	34	35
C R Bates	4	3	19	**73**	65	1	13
S Parker	3	3	3	**17**	–	11	17
G Andrews	3	2	5	**25**	13	4	12
C Hickman	4	3	19	**113**	100	6	20

FURBS* Benefits

	Increase in accrued FURBS* lump sum entitlement earned during the year	Increase in accrued FURBS* lump sum entitlement earned during the year (excluding inflation)	Total accrued FURBS* lump sum entitlement
	£'000	*£'000*	*£'000*
R J Westhead	193	171	1,024
A R Goodburn	68	57	398

* This denotes the overall lump sum promise which is being funded through a combination of FURBS and the Company shortfall provision. The Listing Rules require these figures to be disclosed excluding inflation.

G Andrews and C Hickman were appointed to the Board on 1 January 2003. Of the additional accrued benefits earned during the year, £1,500 and £2,000 were in respect of services prior to their appointment.

The increase in the accrued pension entitlement is the difference between the accrued benefit at the year-end and that at the previous year-end.

All transfer values have been calculated on the basis of actuarial advice consistent with Actuarial Guidance Notice GN11. None of the transfer value figures represents sums payable to the directors and, therefore, cannot be meaningfully added to annual remuneration.

The increase in the transfer value less directors' contributions is the increase in the value of accrued benefits during the year after deducting the director's personal contributions.

The transfer value of the increase in accrued benefits, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the director has earned in the period, whereas the change in his transfer value, required by the Companies Act, discloses the absolute increase or decrease in his transfer value and includes the change in value of the accrued benefits that results from market volatility affecting the transfer value at the beginning of the year, as well as the additional value earned in the year.

J W Holt participates in a US defined contribution pension arrangement. Contributions paid during the year ended 30 June 2003 amounted to £27,000 (2002: £27,000).

Long Term Incentive Plan ("LTIP")

The LTIP was operated for the seventh time during the year. The aim of the LTIP is to focus the efforts of senior executives on the long-term performance of the Group in a way which aligns with the interests of shareholders. The allocation of shares depends upon seniority and ranges between 15% and 40% of basic salary – executive directors normally being allocated shares based on 40% of basic salary.

The eventual number of shares which participants may receive, if any, is dependent on the achievement of the performance conditions of the scheme at the end of the three year cycle of each plan. The principal condition relates to the Group's adjusted eps performance compared with that of a comparator group comprising companies within the FTSE 250 excluding financial services companies. Broadly, if the growth in the Group's adjusted eps on a cumulative basis places the Group below the median of the comparator group, no shares are allocated. However if the Group's adjusted eps performance places it between the 50th and 89th percentiles of the comparator group, allocations of shares ranging from 20% to 98% are made. It is only if the Group's performance places it in the top decile that an award of 100% is made. The Remuneration Committee is satisfied, having taken advice, that the performance criteria are demanding.

For the scheme that matured on 30 June 2002, participants received 62% of the shares provisionally allocated to them. For the scheme that matured on 30 June 2003, as the Group's adjusted eps performance is likely to place it in the 74th percentile of the comparator group, participants will probably receive 68% of the shares provisionally allocated to them.

The LTIP has been approved by shareholders.

Details of the provisional number of shares awarded to directors under the LTIP are as follows:

This table is auditable information.

	Cycle ending	Award date	At 1 July 2002 Number	Shares provisionally allocated Number	Shares not finally vesting Number	Shares vested Number	**At 30 June 2003 Number**	Value Vested £'000	Vesting date
R J Westhead	2002	1.7.99	15,041	–	(5,716)	9,325	**–**	25	04.10.02
	2003	1.7.00	10,653	–	–	–	**10,653**	–	–
	2004	1.7.01	15,854	–	–	–	**15,854**	–	–
	2005	1.7.02	–	39,487	–	–	**39,487**	–	–
A R Goodburn	2002	1.7.99	9,018	–	(3,427)	5,591	**–**	15	04.10.02
	2003	1.7.00	6,346	–	–	–	**6,346**	–	–
	2004	1.7.01	9,817	–	–	–	**9,817**	–	–
	2005	1.7.02	–	23,900	–	–	**23,900**	–	–
C R Bates	2002	1.7.99	5,418	–	(2,059)	3,359	**–**	9	04.10.02
	2003	1.7.00	3,808	–	–	–	**3,808**	–	–
	2004	1.7.01	7,927	–	–	–	**7,927**	–	–
	2005	1.7.02	–	20,090	–	–	**20,090**	–	–
J W Holt	2002	1.7.99	7,228	–	(2,747)	4,481	**–**	12	04.10.02
	2003	1.7.00	5,704	–	–	–	**5,704**	–	–
	2004	1.7.01	11,378	–	–	–	**11,378**	–	–
	2005	1.7.02	–	26,194	–	–	**26,194**	–	–
S Parker	2002	1.7.99	–	–	–	–	**–**	–	–
	2003	1.7.00	–	–	–	–	**–**	–	–
	2004	1.7.01	–	–	–	–	**–**	–	–
	2005	1.7.02	–	29,096	–	–	**29,096**	–	–
G A Andrews	2002	1.7.99	5,133	–	(1,951)	3,182	**–**	9	04.10.02
	2003	1.7.00	3,518	–	–	–	**3,518**	–	–
	2004	1.7.01	6,829	–	–	–	**6,829**	–	–
	2005	1.7.02	–	19,051	–	–	**19,051**	–	–
C Hickman	2002	1.7.99	5,560	–	(2,113)	3,447	**–**	9	04.10.02
	2003	1.7.00	3,898	–	–	–	**3,898**	–	–
	2004	1.7.01	7,835	–	–	–	**7,835**	–	–
	2005	1.7.02	–	19,051	–	–	**19,051**	–	–
Total of awards vested in 2002						29,385		79	

The value of the awards vested in 2003 is based on the average market price of Ricardo plc shares on the date of vesting of £2.70.

Share option schemes

Ricardo currently operates a savings related share option scheme and two executive share option schemes:

(i) The Ricardo plc 2000 Savings Related Share Option Scheme

(ii) The 1994 Executive Share Option Scheme, which is approved by the Inland Revenue

(iii) The 1995 Executive Share Option Scheme, which is unapproved by the Inland Revenue

The Ricardo plc 2000 Savings Related Share Option Scheme is an all employee scheme where participants save a fixed monthly sum for three or five years and may use the sum generated by their savings contract to exercise options which are granted at a 20% discount to the market price. Depending on the option period chosen, exercise can normally take place after three, five or seven years.

The Company grants options from time to time under either the 1994 or the 1995 Executive Share Option Schemes.

The 1995 Executive Share Option Scheme is designed to be operated using market purchased shares held in an Employee Share Ownership Plan ("ESOP") trust. The number of shares which can be held under the ESOP is limited to 5% of the company's issued share capital. The trustee is Mourant & Co Trustees Limited, an independent professional trustee. The Ricardo ESOP is being financed by a loan, repayable on demand, of up to £1,000,000 (2002: £1,000,000) from Ricardo plc to the trustee. At 30 June 2003, the trustee of the Ricardo ESOP held 67,000 ordinary shares in Ricardo plc with a market value at 30 June 2003 of 372.5p per share. The shares held attract an annual dividend of 0.01p per share.

The above mentioned share option schemes have been approved by shareholders.

Options were granted during the year to G A Andrews and C Hickman, in recognition of their appointment to the Board of Ricardo plc in January 2003. These options were granted under the 1994 Executive Share Option Scheme and are subject to the achievement of performance criteria. These criteria require that the Group's adjusted eps must increase on average by at least 7.5% per annum (adjusted for inflation), over the three year period after the grant date, before the option may be exercised. If the Group's adjusted eps performance fails to meet this target, the period over which performance is measured is extended to four years and if necessary again to five years, in both cases still requiring the average growth in adjusted eps over the period to exceed 7.5% per annum (adjusted for inflation). If the Group's performance fails to achieve this target after five years, the option lapses.

No options were granted in the year under the 1995 Executive Share Option Scheme, which has identical performance criteria as apply to the 1994 Executive Share Option Scheme.

Details of directors' interests in options over Ricardo plc's ordinary shares granted under the respective share option schemes are set out below:

The following tables are auditable information.

The 1994 Executive Share Option Scheme

	At 1 July 2002	Number of options during the year Granted	Exercised	Lapsed	At 30 June 2003	Exercise price pence	Market price at date of exercise pence	Date from which exercisable	Expiry date
R J Westhead	144,000	–	–	–	144,000	114.0	–	15.03.99	14.03.06
A R Goodburn	10,000	–	–	–	10,000	114.0	–	15.03.99	14.03.06
C R Bates	50,000	–	–	–	50,000	381.0	–	25.09.04	24.09.11
J W Holt	50,000	–	–	–	50,000	381.0	–	25.09.04	24.09.11
G A Andrews	10,000	–	–	–	10,000	114.0	–	15.03.99	14.03.06
	–	50,000	–	–	50,000	265.0	–	25.02.06	24.02.13
C Hickman	–	50,000	–	–	50,000	285.0	–	25.02.06	24.02.13

The 1995 Executive Share Option Scheme

	At 1 July 2002	Number of options during the year Granted	Exercised	Lapsed	At 30 June 2003	Exercise price pence	Market price at date of exercise pence	Date from which exercisable	Expiry date
A R Goodburn	67,000	–	–	–	67,000	148.0	–	12.12.00	11.12.04

The Ricardo plc 2000 Savings Related Share Option Scheme

	At 1 July 2002	Number of options during the year Granted	Exercised	Lapsed	At 30 June 2003	Exercise price pence	Market price at date of exercise pence	Date from which exercisable	Expiry date
R J Westhead	9,015	–	(9,015)	–	–	114.8	260.0	1.02.03	31.07.03
	1,376	–	(1,376)	–	–	281.6	305.0	1.12.02	31.05.03
	–	1,619	–	–	1,619	233.4	–	1.12.05	31.05.06
A R Goodburn	2,328	–	–	(2,328)	–	416.0	–	1.02.04	31.07.04
	–	4,048	–	–	4,048	233.4	–	1.12.05	31.05.06
C R Bates	2,084	–	–	(2,084)	–	281.6	–	1.12.02	31.05.03
	–	2,429	–	–	2,429	233.4	–	1.12.05	31.05.06
G A Andrews	3,005	–	–	–	3,005	114.8	–	1.02.03	31.07.03
	2,752	–	–	(2,752)	–	281.6	–	1.12.02	31.05.03
	–	3,239	–	–	3,239	233.4	–	1.12.05	31.05.06
C Hickman	3,440	–	–	(3,440)	–	281.6	–	1.12.02	31.05.03
	–	4,048	–	–	4,048	233.4	–	1.12.05	31.05.06

Gains made by directors on share options

The aggregate of the total theoretical gains on share options exercised by R J Westhead during 2003 amounted to £13,412. This compares to gains on exercise of options during the year to 30 June 2002 of £481,000 and £106,000 relating to R J Westhead and A R Goodburn respectively.

The gain made by directors on share options is calculated by reference to the difference between the closing mid market price on the date of exercise and the exercise price of the options, disregarding whether such shares were sold or retained on exercise, and is stated before tax. R J Westhead retained all of his shares on exercise.

The only options held by directors which lapsed during the year were in the Savings Related Share Option Scheme, as the option price proved unattractive.

Directors' share interests

	Ordinary shares		Options over ordinary shares	
	At 30 June 2003	At 1 July 2002	**At 30 June 2003**	At 1 July 2002
R J Westhead	**224,184**	208,198	**145,619**	154,391
A R Goodburn	**45,480**	42,126	**81,048**	79,328
C R Bates	**8,892**	6,877	**52,429**	52,064
J W Holt	**28,471**	23,990	**50,000**	50,000
S Parker	**–**	–	**–**	–
G A Andrews	**27,460**	–	**66,244**	–
C Hickman	**2,068**	–	**54,048**	–
Sir N Davies	**12,000**	6,000	**–**	–
P T Ward	**10,500**	10,500	**–**	–
J P Percy	**–**	–	**–**	–
J M Harper	**–**	–	**–**	–

On appointment, G A Andrews and C Hickman held 27,460 and 2,068 ordinary shares respectively.

At 22 September 2003 the holding of G A Andrews had increased by 3,005 ordinary shares to 30,465 ordinary shares following the exercise of an option granted under The Ricardo plc 2000 Savings Related Share Option Scheme. The respective holdings of the other directors had not changed from those at 30 June 2003.

At 30 June 2003, 67,000 ordinary shares in the Company were held in the ESOP trust and each of the executive directors of the Company, by virtue of being, together with other employees of the Company, a potential beneficiary under that trust, is taken to be interested in those shares.

The middle market price of the Company's ordinary shares on 30 June 2003 was 372.5p and the range in the year was 239.0p to 381.5p with an average price of 308.0p.

Non-executive directors

The Board determines fees paid to non-executive directors. The non-executive directors do not participate in any of the company's share schemes, pension schemes or bonus arrangements nor do they have service agreements.

Executive directors' service agreements

The Board's policy on setting notice periods for new directors is that these should not exceed one year. It recognises, however, that it may be necessary in the case of new executive appointments to offer an initial longer notice period, which would subsequently reduce to one year after the expiry of that period.

R J Westhead is employed under a service contract containing a notice period of two years. All of the other directors have service agreements terminable on one year's notice.

The Remuneration Committee has given careful consideration to the Combined Code on Corporate Governance, which states that notice periods should not exceed one year. All future appointments to the Board will comply with this requirement but it takes the view that, as Mr Westhead's retirement date is two years from the date of this year's Annual General Meeting, it is considered not to be in Ricardo's interest to seek to re-negotiate the terms of his contract at this stage and therefore the current notice period remains appropriate.

The details of the service contracts of the executive directors are shown below.

	Date of service contract	Length of contract	Notice period
R J Westhead	9 April 1998	2 year rolling*	24 months*
A R Goodburn	7 October 1998	1 year rolling	12 months
C R Bates	20 September 2001	1 year rolling	12 months
J W Holt	18 December 2001	1 year rolling	12 months
S Parker	2 April 2003	1 year rolling	12 months
G A Andrews	2 April 2003	1 year rolling	12 months
C Hickman	21 March 2003	1 year rolling	12 months

The contractual termination provision is payment in lieu of notice equal to one year basic salary (in R J Westhead's case two years) or the amount of any unexpired notice and any accrued bonus to the date of termination.

No compensation is paid for summary dismissal.

* R J Westhead's service contract provides for automatic termination of his employment upon his attaining the age of 62 (on 9 November 2005).

Non-executive directors

Non-executive directors are appointed for a period of two years by letter of appointment and are entitled to one month's notice of early termination. No compensation is payable for early termination. The unexpired terms of the non-executive directors are:

Sir Noel Davies	18 months
P T Ward	22 months
J P Percy	12 months
J M Harper	24 months

External appointments

The Board recognises the benefit that Ricardo can obtain if executive directors of Ricardo serve as non-executive directors of another company. Subject to review in each case, the Remuneration Committee's general policy is that executive directors may accept non-executive directorships with other companies, from which the director may retain any fees.

On behalf of the Board.

Sir Noel Davies
Chairman of the Remuneration Committee
22 September 2003

Corporate Governance

The Board supports the recommendations of "The Combined Code – Principles of Good Governance and Code of Best Practice" ("The Combined Code") which has been appended to the UK Listing Rules.

Application and compliance with the Combined Code

The Company has complied throughout the year with the Combined Code by applying the Principles of Good Governance as set out in Section 1 of the Combined Code except that as regards Provision B1.7 (Directors' service contracts) the service contract of the Chief Executive provides for a notice period by the Company in excess of the one year recommended by the Combined Code. There is no plan to reduce this period for the reasons set out in the Directors' Remuneration Report.

The Board of Directors and its Committees

The Board of Directors

The Board, which is headed by the Chairman who is non-executive, comprised three other non-executive and seven executive members as at 30 June 2003. It met at least twelve times in the year. The role of the Board is to provide entrepreneurial leadership of the Company and to set strategic aims but within a framework of prudent and effective controls which enable risk to be managed. The Board ensures that the necessary financial and human resources are in place to meet its obligations to its shareholders and others. It approves acquisitions and disposals of businesses, major capital expenditure, the annual financial budgets, recommends interim and final dividends and receives recommendations from the Audit Committee in relation to the appointment of auditors and their remuneration and from the Nomination Committee regarding Board appointments. The Board agrees with the Remuneration Committee the framework for executive directors' remuneration and determines fees paid to non-executive directors. Board papers are circulated before Board meetings in sufficient time to be meaningful. The Chairman briefs non-executive directors on issues arising at Board meetings as appropriate. He ensures the competence and capability of directors on an on-going basis.

The non-executive directors meet during the year with the Chairman and Chief Executive present on at least four occasions, to review strategy.

The Audit Committee

J P Percy is Chairman of the Audit Committee which also has Sir Noel Davies, P T Ward and J M Harper as members. All are non-executive directors. It meets at least twice a year with the external auditors in attendance, has written terms of reference and assists the Board to fulfil its obligations regarding the maintenance and effectiveness of its systems of internal controls and by reviewing the annual financial statements and the interim and preliminary announcements prior to submission to the Board and prior to publication. It reviews the scope and planning of the external audit process, and also reviews the independence and effectiveness of the external auditors before recommending their appointment and remuneration to the Board. With regard to the non-audit services, it has a policy to ensure that the independence of the external auditors is not impaired and approves the provision of such services as required. It is authorised to obtain, if necessary, external legal or other independent professional advice to ensure compliance of Group accounting policies with applicable legal and accounting standards.

The Remuneration Committee

The Remuneration Committee, which is chaired by Sir Noel Davies, also comprises the non-executive directors and meets when required, but meets at least twice a year with the Chief Executive in attendance as appropriate. It has written terms of reference. The Committee agrees the framework for executive directors' remuneration with the Board and determines executive directors' remuneration together with other benefits.

The Nomination Committee

Recommendations to the Board of executive and non-executive appointments and re-appointments, as appropriate, are made by the Nomination Committee after considering the skills and attributes required to fulfil these roles. It has written terms of reference and comprises Sir Noel Davies, J P Percy, P T Ward, J M Harper and R J Westhead. It meets at least twice a year and at other times as appropriate. For the purposes of the nomination of a Chairman, the Nomination Committee is chaired by the senior independent director. To attract suitable candidates, appropriate external advice is taken. The leadership needs of the Company are constantly monitored as are the size and structure of the Board with consideration being given to the training needs of the executive and non-executive members.

The non-executive directors are considered by the Board of Directors to be totally independent of management and are free to exercise independence of judgement. The non-executive Deputy Chairman, J P Percy, has been recognised as being the senior independent director.

Re-election

Directors are subject to election at the Annual General Meeting following their appointment and are subject to re-election at least every three years.

Shareholder communications

Directors meet regularly with institutional shareholders to foster a mutual understanding of objectives.

The directors encourage the participation of all shareholders, including private investors, at the Annual General Meeting and as a matter of policy the level of proxy votes lodged on each resolution is declared at the meeting.

The Annual Report and Accounts is published on our website www.ricardo.com and can be accessed by our shareholders.

Going Concern

After making enquiries, the directors have confidence that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Each part of the Group highlights potential financial and non-financial risks which may impact on the business as part of the monthly management reporting procedures. The Board receives these monthly management reports and monitors the position at Board meetings.

As part of the risk management process, directors and senior managers are required to certify on a bi-annual basis that they have established effective controls to manage risk and to comply with legislation and Group procedures. The procedures have been put in place to ensure that effective control and risk management is embedded in the Group and that the Group is in a position to react as appropriate as new risks arise.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The processes have been in place during the year under review and up to the date of approval of the Annual Report and Accounts, consistent with the guidance for directors on internal control issued by the Turnbull Committee.

The Group's internal financial control and monitoring procedures include:

(a) clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;

(b) the control of key financial risks through clearly laid down authorisation levels and appropriate segregation of accounting duties;

(c) detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;

(d) reporting on compliance with internal financial controls and procedures by Group internal audit;

(e) review of reports issued by the external auditors.

The Audit Committee on behalf of the Board reviews reports from both the internal and external auditors together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report on pages 40 and 41, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 42 to 70 and the relevant disclosures in the Directors' Remuneration Report the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Annual Report and Accounts on the website in accordance with United Kingdom legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the United Kingdom, where comparable legislation may be different.

Independent Auditors' Report to the Members of Ricardo plc

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the statement of total recognised gains and losses, the reconciliation of movements in total shareholders' funds, the consolidated cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issue by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, chief executive's review, finance director's review, directors' report, directors' remuneration report, corporate governance statement and statement of directors' responsibilities.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with 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 and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in 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 and the auditable part of the directors' remuneration report 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.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 2003 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton
22 September 2003

Consolidated Profit and Loss Account for the year ended 30 June 2003

	Notes	Before goodwill amortisation	Goodwill amortisation	**2003 £'000 Total**	Before goodwill amortisation	Goodwill amortisation	2002 £'000 Total
Turnover	2						
Continuing operations		**135,246**	**–**	**135,246**	143,178	–	143,178
Acquisitions		**1,394**	**–**	**1,394**	–	–	–
		136,640	**–**	**136,640**	143,178	–	143,178
Operating profit	3						
Continuing operations		**15,453**	**(281)**	**15,172**	16,508	(13)	16,495
Acquisitions		**133**	**–**	**133**	–	–	–
		15,586	**(281)**	**15,305**	16,508	(13)	16,495
Net interest	4	**565**	**–**	**565**	164	–	164
Profit on ordinary activities before taxation	5	**16,151**	**(281)**	**15,870**	16,672	(13)	16,659
Taxation	7			**(3,460)**			(4,506)
Profit on ordinary activities after taxation				**12,410**			12,153
Minority interest	29			**(194)**			(92)
Profit for the financial year				**12,216**			12,061
Dividends	8			**(4,483)**			(4,207)
Retained profit for the year	20			**7,733**			7,854
Earnings per ordinary share							
– basic	9			**24.9p**			24.9p
– diluted	9			**24.6p**			24.5p
Earnings per ordinary share excluding goodwill amortisation							
– basic	9			**25.5p**			25.0p
– diluted	9			**25.2p**			24.6p

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year, stated above, and their historical cost equivalents.

Consolidated and Company Balance Sheets as at 30 June 2003

		Group		Company	
		2003	2002	**2003**	2002
	Notes	***£'000***	*£'000*	***£'000***	*£'000*
Fixed assets					
Intangible assets	10	**26,339**	35	**–**	–
Tangible assets	11	**50,452**	45,195	**6,332**	6,231
Investments	12	**99**	331	**19,733**	16,499
		76,890	45,561	**26,065**	22,730
Current assets					
Stocks	13	**7,173**	1,667	**–**	–
Debtors	14	**52,769**	46,322	**180,605**	20,270
Cash deposit	15	**340**	340	**–**	–
Cash at bank and in hand		**6,052**	28,090	**18,105**	24,214
		66,334	76,419	**198,710**	44,484
Creditors – amounts falling due within one year	16	**(57,178)**	(53,166)	**(35,609)**	(30,861)
Net current assets		**9,156**	23,253	**163,101**	13,623
Total assets less current liabilities		**86,046**	68,814	**189,166**	36,353
Creditors – amounts falling due after more than one year	17	**(15,832)**	(6,840)	**–**	(5,200)
Provisions for liabilities and charges	18	**(5,276)**	(5,783)	**(130)**	(125)
Net assets		**64,938**	56,191	**189,036**	31,028
Capital and reserves					
Called up share capital	19	**12,469**	12,247	**12,469**	12,247
Share premium account	20	**12,054**	9,767	**12,054**	9,767
Capital redemption reserve	20	**40**	40	**40**	40
Merger reserve	20	**967**	967	**–**	–
Long term incentive plan reserve	20	**204**	594	**204**	594
Profit and loss account	20	**38,614**	32,293	**164,269**	8,380
Total shareholders' funds		**64,348**	55,908	**189,036**	31,028
Minority interests (including non-equity interest)	29	**590**	283	**–**	–
Capital employed		**64,938**	56,191	**189,036**	31,028

The financial statements on pages 42 to 70 were approved by the Board of Directors on 22 September 2003 and signed on its behalf by:

Sir Noel Davies *Chairman*

Rodney Westhead *Chief Executive*

Statement of Group Total Recognised Gains and Losses for the year ended 30 June 2003

	Notes	2003 £'000	2002 £'000
Profit for the financial year		**12,216**	12,061
Foreign exchange variances	20	**(997)**	(877)
Total recognised gains and losses relating to the year		**11,219**	11,184

Reconciliation of Movements in Total Shareholders' Funds

for the year ended 30 June 2003

	2003 £'000	2002 £'000
Profit for the financial year	**12,216**	12,061
Dividends	**(4,483)**	(4,207)
	7,733	7,854
Other recognised losses	**(997)**	(877)
Issue of ordinary shares to the trustees of the LTIP	**–**	471
Issue of ordinary shares on the acquisition of Tarragon Embedded Technology Limited	**1,165**	–
Proceeds on issue of new shares under an employee share scheme	**929**	345
Long term incentive plan reserve	**(390)**	(16)
Addition to total shareholders' funds	**8,440**	7,777
Opening total shareholders' funds	**55,908**	48,131
Closing total shareholders' funds	**64,348**	55,908

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Net cash inflow from operating activities	21		**19,490**		30,242
Returns on investments and servicing of finance					
Interest received		**1,260**		727	
Interest paid		**(636)**		(541)	
Interest element of finance rental payments		**(62)**		–	
Dividend paid to minority shareholder		–		(141)	
Net cash inflow from returns on investment and servicing of finance			**562**		45
Taxation			**(3,921)**		(3,204)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(8,260)**		(5,967)	
Sale of tangible fixed assets		**64**		332	
Shares purchased for LTIP		**(381)**		–	
Net cash outflow from capital expenditure and financial investment			**(8,577)**		(5,635)
Acquisitions					
Purchase of subsidiary undertakings	24	**(18,863)**		–	
Acquisition expenses		**(458)**		–	
Net cash acquired with subsidiary undertakings		**123**		–	
Net cash outflow from acquisitions			**(19,198)**		–
Equity dividends paid			**(4,275)**		(3,829)
Cash flow before use of financing			**(15,919)**		17,619
Financing					
Issue of ordinary share capital		**929**		345	
Amount received in respect of ESOP shares		**–**		49	
Capital elements of finance lease rental payments		**(940)**		(1)	
Loans repaid		**(6,462)**		(1,209)	
Net cash outflow from financing			**(6,473)**		(816)
(Decrease)/increase in cash	23		**(22,392)**		16,803

1 Accounting policies

These financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

(a) Basis of consolidation

The financial statements incorporate the results of all subsidiaries from the date of acquisition or to the date of disposal.

(b) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. From 1 July 1998 goodwill arising on the acquisition of subsidiaries, associates and joint ventures is capitalised and amortised over a period varying between five and twenty years. These periods are the periods over which the directors estimate the value of the underlying businesses acquired are expected to exceed the value of their underlying assets. Goodwill arising on acquisitions prior to 1 July 1998 was written off immediately against reserves. This goodwill had been eliminated in line with the accounting policy in place at the time and will be charged or credited in the profit and loss account on the subsequent disposal of the business to which it related.

(c) Turnover

Turnover consists of amounts chargeable to customers for products and services provided and is exclusive of value added tax and other sales taxes.

The Group's services turnover is derived from work undertaken for customers on substantially long term contracts. Work is undertaken for customers either on the basis that time and materials are billed as incurred or according to the terms of fixed price contracts. For time and material contracts, turnover and profit is recognised according to time worked and materials expended. With respect to fixed price contracts, turnover is recognised according to the percentage of the estimated total contract value completed or the achievement of contractual milestones; a proportion of profit is also recognised as the contract progresses. All losses on fixed price contracts are recognised in the first period they are incurred or foreseen. Revenue and profit is recognised from project variations when it is expected that it will be recovered from customers.

The corresponding amount for turnover is included within debtors as amounts recoverable on contracts. Advance payments received from customers are included in creditors as payments received in advance and amounts are set off against the value of work undertaken as the contracts progress.

The Group's product turnover is derived from the sale of licenses for its software and related services, which include maintenance and training services and from the sale of subscriptions for technical support services.

Income from licence arrangements is recognised when a signed contract is obtained and delivery has occurred. Payments received in advance of revenue recognition are recorded as deferred income. Revenue from training is recognised when the services are performed. Income from subscriptions is recognised over the life of the subscription.

(d) Tangible fixed assets

Depreciation is provided to write off the value (being cost less estimated residual value) of long leasehold property and freehold buildings, and the cost of other tangible fixed assets over their estimated useful lives as follows:

Freehold buildings	– Between 25 and 50 years
Long and short leasehold property	– Over the term of the lease
Plant and machinery	– Between 5 and 10 years
Fixtures, fittings and equipment including computer aided design equipment	– Between 3 and 10 years
Motor vehicles	– Between 4 and 5 years

Freehold land is not depreciated.

1 Accounting policies

(e) Investments

Investments are stated at cost, less any impairment in value.

(f) Stocks and work in progress

Stocks are stated at the lower of cost, including attributable overheads, and net realisable value. Work in progress is stated at cost, including attributable overheads, less any foreseeable losses and progress payments receivable.

Pre production and development costs relating to specific contracts are included in work in progress to the extent to which they are recoverable.

(g) Research and development

Expenditure on research and development is written off in the year in which it is incurred.

(h) Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange gains and losses arising in the normal course of trading are dealt with in the profit and loss account.

Trading results of overseas subsidiaries are translated into sterling at average rates and the assets and liabilities of the subsidiaries are translated at the rate of exchange ruling at the balance sheet date. Unrealised exchange gains and losses arising from the retranslation of equity investments in overseas subsidiaries, and the related foreign currency borrowings used to finance those investments, together with deferred Group trading balances, are dealt with through reserves.

(i) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, with the following exceptions:

- deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing difference can be reversed;
- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of those replacement assets; and
- provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(j) Leases

The costs of operating leases are dealt with by way of a charge to the profit and loss account as incurred.

Assets held under finance leases and hire purchase agreements are included as tangible fixed assets at purchase price and depreciated over their estimated lives. The obligations (net of finance charges) are included, as appropriate, under creditors, due within or after one year.

(k) Pension costs

The expected cost of pensions in respect of the Group's main defined benefit pension scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme.

The pension cost is assessed in accordance with the advice of qualified actuaries. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme.

1 Accounting policies

The pension costs for the Group's defined contribution scheme and other money purchase schemes are charged against profits in the year in which they are incurred.

(l) Share schemes

The Group's Employee Share Ownership Plan (ESOP), Qualifying Employee Share Ownership Trust (QUEST) and Employee Share Ownership Trust (ESOT) are separately administered trusts which are funded by loans (the ESOP) and gifts, (the QUEST and the ESOT), from the Company, and the assets of which, mainly comprise shares in the Company. Shares are shown at their estimated recoverable amount being the option price of the shares payable by employees. The amounts contributed to the QUEST and ESOT, in excess of the option price, are charged against reserves.

(m) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged items and must also reduce the risk of foreign exchange currency movements on the Group's operations. Gains and losses on these contracts are recognised in the profit and loss account when the hedged transaction is recognised. The more significant financial instruments of the Group are disclosed in note 28 of the financial statements.

2 Turnover by destination

	2003	2002
	£'000	*£'000*
Europe	**87,554**	87,699
North America	**41,825**	46,912
Pacific Basin	**5,622**	7,046
Rest of the World	**1,639**	1,521
	136,640	143,178

The directors consider that the Group operates in one business segment, serving the global automotive market. The United Kingdom is the principal location for operating profits and the net assets of the Group. As a consequence, it is not meaningful to show separately its turnover, operating results or net assets by origin or geographical location.

3 Operating profit

	Before goodwill amortisation	Goodwill amortisation	**2003 £'000 Total**	Before goodwill amortisation	Goodwill amortisation	2002 £'000 Total
Turnover						
Continuing	**135,246**	**–**	**135,246**	143,178	–	143,178
Acquisitions	**1,394**	**–**	**1,394**	–	–	–
	136,640	**–**	**136,640**	143,178	–	143,178
Cost of sales						
Continuing	**(89,247)**	**–**	**(89,247)**	*(98,278)*	–	*(98,278)*
Acquisitions	**(880)**	**–**	**(880)**	–	–	–
	(90,127)	**–**	**(90,127)**	(98,278)	–	(98,278)
Gross profit						
Continuing	**45,999**	**–**	**45,999**	44,900	–	44,900
Acquisitions	**514**	**–**	**514**	–	–	–
	46,513	**–**	**46,513**	44,900	–	44,900
Administration expenses						
Continuing	**(30,546)**	**(281)**	**(30,827)**	(28,392)	(13)	(28,405)
Acquisitions	**(381)**	**–**	**(381)**	–	–	–
	(30,927)	**(281)**	**(31,208)**	(28,392)	(13)	(28,405)
Operating profit	**15,586**	**(281)**	**15,305**	16,508	(13)	16,495

4 Net interest

	2003 £'000	2002 £'000
Continuing operations:		
Interest receivable	**1,171**	729
Interest payable on bank loans and overdrafts	**(544)**	(565)
Interest payable on finance leases	**(62)**	–
	565	164

5 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Research and development	**5,120**	4,636
Operating leases: hire of plant and machinery	**495**	424
other	**2,385**	2,330
Amortisation of intangible fixed assets	**281**	13
Depreciation	**9,495**	9,117
Gain on sale of tangible fixed assets	**(15)**	(14)
Total auditors' remuneration was as follows:		
Audit services		
Statutory audit fees for the group	**220**	154
Accounting advice	**14**	–
Assistance with preparation of subsidiary undertakings' statutory accounts	**12**	4
	246	158
Audit fees of the Company	**56**	51
Fees for non audit services, paid or payable, to the auditors in the UK:		
Further assurance services		
Transaction support relating to acquisitions	**231**	96
Tax services		
Advisory services	**145**	–
Compliance services	**3**	–
Other services	**43**	5
	422	101
Fees paid or payable to the auditors, outside of the UK, were:		
Audit services	**46**	20
Transaction support relating to acquisitions	**208**	–
	254	20
Total fees, paid or payable, to the auditors for all services provided	**876**	259

6 Employees

	2003 £'000	2002 £'000
Staff costs:		
Wages and salaries	**56,953**	53,837
Social security costs	**6,643**	6,165
Other pension costs (note 26)	**3,942**	2,049
	67,538	62,051

6 Employees

	2003 Number	2002 Number
Average number of employees (including executive directors) during the year:		
Management, administration and sales	**206**	197
Production and engineering staff	**1,372**	1,241
	1,578	1,438

7 Taxation on profit on ordinary activities

	2003 £'000	2002 £'000
Analysis of charge in the year		
United Kingdom		
Corporation tax at 30% (2002: 30%)	**4,746**	5,305
Adjustments in respect of prior periods*	**(1,111)**	(945)
Double tax relief	**(191)**	(445)
	3,444	3,915
Foreign tax		
Corporation taxes	**447**	1,000
Total current tax	**3,891**	4,915
Deferred tax		
Origination and reversal of timing differences	**(433)**	(643)
Representing:		
United Kingdom	**(433)**	(643)
Adjustment in respect of prior years	**2**	234
Total deferred tax	**(431)**	(409)
Tax on profit on ordinary activities	**3,460**	4,506

* This includes a tax benefit of £805,000 (2002: £NIL) following clarification on the interpretation of aspects of the Finance Act 2002.

The tax for the year is lower (2002: lower) than the standard rate of corporation tax in the UK (30%). The differences are set out below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	**15,870**	16,659
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	**4,761**	4,998
Effects of:		
Expenses not deductible for tax purposes	**304**	153
R&D tax credits	**(374)**	–
QUEST contributions allowable	**(124)**	(204)
Depreciation in excess of capital allowances	**428**	805
Other short term timing differences	**5**	(161)
Adjustments to corporation tax in respect of prior years	**(1,111)**	(945)
Irrecoverable overseas tax	**66**	57
Difference in foreign tax rates	**87**	522
Utilisation of US tax losses	**(206)**	(435)
Unutilised German/French tax losses	**55**	125
	3,891	4,915

7 Taxation on profit on ordinary activities

Factors that may affect future tax charges

Following the introduction of research and development tax credits, the Group anticipates being able to maintain a lower effective rate of tax on its worldwide profits than the current UK rate of 30%.

Based on current capital investment plans, the Group expects the annual depreciation charge to exceed the claim for capital allowances but at a lower level than in the current year.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

8 Dividends

	2003 £'000	2002 £'000
Equity ordinary dividends:		
Interim 2.7p per share (2002 – 2.6p)	**1,346**	1,278
Proposed final of 6.3p per share (2002 – 6.0p)	**3,137**	2,929
	4,483	4,207

9 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue during the year, excluding those held in the ESOP (note 12) and those held by the LTIP which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those options granted to employees where the exercise price is less than the market price of the Company's ordinary shares during the year and the contingently issuable shares under the Group's LTIP. At 30 June 2003, the performance criteria for the vesting of awards under the plans maturing on 30 June 2004 and 30 June 2005 had not been met and consequently the shares in question are excluded from the diluted earnings per share computation.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below:

		2003			2002	
	Earnings £'000	**Weighted average number of shares '000**	**Per share amount pence**	Earnings £'000	Weighted average number of shares '000	Per share amount pence
Basic EPS						
Profit attributable to ordinary shareholders	**12,216**	**49,059**	**24.9**	12,061	48,352	24.9
Effect of dilutive securities:						
Options	**–**	**438**		–	678	
LTIP	**–**	**118**		–	120	
Diluted EPS						
Adjusted earnings	**12,216**	**49,615**	**24.6**	12,061	49,150	24.5
Supplementary earnings per share to exclude goodwill amortisation:						
Basic EPS	**12,216**	**49,059**	**24.9**	12,061	48,352	24.9
Goodwill amortisation	**281**			13		
Basic EPS excluding goodwill amortisation	**12,497**	**49,059**	**25.5**	12,074	48,352	25.0
Diluted EPS	**12,216**	**49,615**	**24.6**	12,061	49,150	24.5
Goodwill amortisation	**281**			13		
Diluted EPS excluding goodwill amortisation	**12,497**	**49,615**	**25.2**	12,074	49,150	24.6

9 *Earnings per share*

The weighted average number of shares in issue may be reconciled to the number used in the earnings per share calculation as follows:

Weighted average number:	**2003** **'000**	2002 '000
Ordinary shares in issue	**49,188**	48,648
Shares held by ESOP	**(67)**	(189)
Shares held by LTIP	**(62)**	(107)
	49,059	48,352

10 Intangible fixed assets

	Goodwill Total *£'000*
Group	
Cost	
At 1 July 2002	59
Additions (note 24)	26,585
At 30 June 2003	**26,644**
Aggregate amortisation	
At 1 July 2002	24
Charge for year	281
At 30 June 2003	**305**
Net book amount 2003	**26,339**
Net book amount 2002	35

The goodwill arising on the acquisition of the business of Gemini Transmissions Limited is being amortised on a straight line basis over a period of 10 years, the goodwill arising on the acquisition of Tarragon Embedded Technology Limited is being amortised on a straight line basis over a period of 15 years whilst the goodwill arising on the acquisition of the PROTOtechnik – IFT Group of companies will be amortised over a period of 20 years effective from 1 July 2003. The periods are the periods the directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets. Details of the acquisitions and goodwill amounts are shown in note 24.

11 Tangible fixed assets

	Land and Buildings				Fixtures,	
	Freehold	Long Leasehold	Short Leasehold	Plant & Machinery	Fittings & Equipment	**Total**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	***£'000***
GROUP						
Cost:						
At 1 July 2002	6,993	1,197	866	67,104	20,211	**96,371**
Reclassifications	–	(1,197)	1,203	(143)	137	**–**
Additions	–	–	295	5,624	2,268	**8,187**
Acquisitions	3,467	–	–	2,913	892	**7,272**
Disposals	–	–	–	(300)	(1,633)	**(1,933)**
Foreign exchange adjustment	–	–	(58)	(1,152)	(311)	**(1,521)**
At 30 June 2003	10,460	–	2,306	74,046	21,564	**108,376**
Depreciation:						
At 1 July 2002	1,006	174	223	34,873	14,900	**51,176**
Reclassifications	–	–	174	(8)	8	–
Depreciation for the year	58	(174)	157	6,573	2,707	**9,495**
Disposals	–	–	–	(296)	(1,588)	**(1,884)**
Foreign exchange adjustment	–	–	(19)	(576)	(268)	**(863)**
At 30 June 2003	1,064	–	535	40,566	15,759	**57,924**
Net book amount 2003	9,396	–	1,771	33,480	5,805	**50,452**
Net book amount 2002	5,987	1,023	643	32,231	5,311	45,195

Included in the net book value of plant and machinery of £33,480,000 (2002: £32,231,000), fixtures and fittings of £5,805,000 (2002: £5,311,000) and land and buildings – short leasehold of £1,771,000 (2002: £643,000) are assets under the course of construction with net book values of £815,000 (2002: £NIL), £406,000 (2002: £NIL) and £372,000 (2002: £NIL) respectively which have not been depreciated in the year.

	Land and Buildings			Fixtures,	
	Freehold	Long Leasehold	Short Leasehold	Fittings & Equipment	**Total**
	£'000	*£'000*	*£'000*	*£'000*	***£'000***
COMPANY					
Cost:					
At 1 July 2002	5,615	1,197	28	633	**7,473**
Reclassification	–	(1,197)	1,197	–	**–**
Additions	–	–	235	133	**368**
Disposals	–	–	–	(133)	**(133)**
Inter group transfer	–	–	–	(114)	**(114)**
At 30 June 2003	5,615	–	1,460	519	**7,594**
Depreciation:					
At 1 July 2002	924	174	25	119	**1,242**
Reclassification	–	(174)	174	–	**–**
Depreciation for the year	12	–	64	32	**108**
Disposals	–	–	–	(88)	**(88)**
At 30 June 2003	936	–	263	63	**1,262**
Net book amount 2003	4,679	–	1,197	456	**6,332**
Net book amount 2002	4,691	1,023	3	514	6,231

11 Tangible fixed assets

Included in the net book value of fixtures and fittings of £456,000 (2002: £514,000) and land and buildings – short leasehold of £1,197,000 (2002: £3,000) are assets under the course of construction with net book values of £406,000 (2002: £NIL) and £372,000 (2002: £NIL) respectively, which have not been depreciated in the year.

12 Investments

	Group			Company			
	Own Shares	Unlisted Trade Investments	**Total**	Shares in Subsidiaries	Own Shares	Unlisted Trade Investments	**Total**
	£'000	*£'000*	***£'000***	*£'000*	*£'000*	*£'000*	***£'000***
Cost at 1 July 2002	146	232	**378**	26,679	146	232	**27,057**
Additions	–	–	**–**	3,707	–	–	**3,707**
Disposals	–	–	**–**	(142)	–	–	**(142)**
Transferred to debtors	–	–	**–**	–	(146)	–	**(146)**
Cost at 30 June 2003	146	232	**378**	30,244	–	232	**30,476**
Provisions							
Provisions at 1 July 2002	47	–	**47**	10,511	47	–	**10,558**
Charged to profit and loss account	–	232	**232**	–	–	232	**232**
Transferred to debtors	–	–	–	–	(47)	–	**(47)**
Provisions at 30 June 2003	47	232	**279**	10,511	–	232	**10,743**
Net book amount 2003	**99**	**–**	**99**	**19,733**	**–**	**–**	**19,733**
Net book amount 2002	99	232	331	16,168	99	232	16,499

The unlisted trade investment of the Group and the Company represents a 24.19% interest in the ordinary share capital of SRH Systems Limited, a company registered in England and Wales. Based on management accounts for the year to 27 June 2003 the aggregate deficit on share capital and reserves, for SRH Systems Limited, was £490,000 and a loss for that year of £213,000 was incurred. In the light of continued losses, the directors have reviewed the carrying value and considered it appropriate to recognise an impairment provision as at 30 June 2003.

The investment in the Company's own shares, stated at the lower of cost or realisable value, relates to 67,000 (2002: 67,000) ordinary shares of 25p each held by the Group's Employee Share Ownership Plan Trust. The book value and market value of the shares at 30 June 2003 were 148.0p and 372.5p respectively.

13 Stocks

	Group	
	2003	2002
	£'000	*£'000*
Raw materials and consumables	**2,363**	1,180
Work in progress	**4,810**	487
	7,173	1,667

14 Debtors

Amounts falling due within one year

	Group		Company	
	2003	2002	**2003**	2002
	£'000	*£'000*	***£'000***	*£'000*
Trade debtors	**26,613**	23,696	**162**	8
Amounts recoverable on contracts	**18,564**	17,342	**–**	–
Amounts owed by Group undertakings	**–**	–	**179,016**	18,423
Prepayments	**2,969**	2,655	**970**	918
Company own shares	**–**	–	**99**	–
Deferred tax	**–**	–	**–**	208
Overseas taxes	**2,559**	660	**–**	–
Other debtors	**2,064**	1,969	**358**	713
	52,769	46,322	**180,605**	20,270

15 Cash deposit

This cash is held on deposit at Lloyds TSB Bank Plc and can only be utilised to redeem the loan notes referred to in note 16. The interest attaching to the deposit is receivable by the Group. The deposit has been excluded from cash in the cash flow statement.

16 Creditors – amounts falling due within one year

	Group		Company	
	2003	2002	**2003**	2002
	£'000	*£'000*	***£'000***	*£'000*
Loan notes	**340**	340	**–**	–
Bank loans and overdrafts	**1,672**	1,312	**16,996**	10,151
Payments received in advance	**17,487**	22,441	**–**	–
Trade creditors	**8,196**	4,724	**153**	102
Amounts owed to Group undertakings	**–**	–	**12,580**	13,156
Other creditors	**2,553**	2,191	**1,267**	2,484
UK corporation tax	**3,983**	3,538	**682**	1,096
Overseas taxes	**2,977**	207	**–**	–
Other taxes and social security	**1,697**	1,541	**73**	55
Dividends	**3,137**	2,929	**3,137**	2,929
Accruals	**12,833**	13,943	**721**	888
Deferred consideration	**2,303**	–	**–**	–
	57,178	53,166	**35,609**	30,861

The interest on the guaranteed floating rate unsecured loan notes 2004 is payable at the rate of 1⅛% below Lloyds TSB Bank Plc base rate. The loan notes are redeemable at the option of the holder. Payment is being guaranteed by Lloyds TSB Bank Plc. The Group has made an equivalent deposit with the bank (see note 15).

17 *Creditors – amounts falling due after more than one year*

	Group		Company	
	2003	2002	**2003**	2002
	£'000	*£'000*	***£'000***	*£'000*
Bank loans	**5,572**	6,840	**–**	5,200
Deferred consideration	**10,260**	–	**–**	–
	15,832	6,840	**–**	5,200
Maturity of debt:				
Repayable on demand or within one year	**1,672**	1,312	**16,996**	10,151
Between one and two years	**443**	1,640	**–**	–
Between two and five years	**703**	5,200	**–**	5,200
In five years or more	**4,426**	–	**–**	–
	7,244	8,152	**16,996**	15,351

The deferred consideration reflects an amount payable after 30 June 2004 but before 30 June 2005, subject to contractual performance targets being met.

The interest rates on the US dollar denominated outstanding loans, vary between 0.85% above UK bank base rate and 0.85% above LIBOR, as appropriate, and 0.9% above US prime rate or 0.75% above LIBOR, as appropriate. For the outstanding loans which are denominated in Euros, the interest rates vary from 2.05% to 6.85%, and for loans which are denominated in Swiss Francs, the interest rates vary from 2.77% and 0.8% above LIBOR.

18 Provisions for liabilities and charges

	Onerous leases	Deferred Tax	**Total**
	£'000	*£'000*	***£'000***
Group:			
At 1 July 2002	125	5,658	**5,783**
Credited to profit and loss account	(76)	(431)	**(507)**
At 30 June 2003	49	5,227	**5,276**
Company:			
At 1 July 2002	125	–	**125**
(Credited)/charged to profit and loss account	(76)	81	**5**
At 30 June 2003	49	81	**130**

The onerous leases provision reflects rental shortfall in a surplus property.

	2003	2002
Deferred taxation comprises	**Provided**	Provided
	£'000	*£'000*
Group:		
Capital allowances in excess of depreciation	**6,152**	6,595
Tax losses carried forward	**(990)**	(990)
Other timing differences	**65**	53
	5,227	5,658
Company:		
Depreciation in excess of capital allowances	**77**	108
Other timing differences	**4**	(316)
	81	(208)

19 Called up share capital

	Group and Company	
	2003	2002
	£'000	*£'000*
Authorised		
59,760,000 ordinary shares of 25p each	**14,940**	14,940

	2003	2002
	£'000	*£'000*
Allotted, called up and fully paid		
At 1 July 2002 – 48,988,620 shares	**12,247**	12,154
Allotted under share option schemes – 460,280 shares	**115**	59
Allotted to LTIP trustee	**–**	34
Allotted to the vendors of Tarragon Embedded Technology Limited – 426,297 shares	**107**	–
At 30 June 2003 – 49,875,197 shares*	**12,469**	12,247

* Included in the total are 29,385 ordinary shares (2002: 29,316) allotted to directors under the Group's LTIP with a nominal value of £7,346 (2002: £7,329).

The net consideration received for shares allotted under the share option schemes during the year ended 30 June 2003 was £929,210 (2002: £345,000).

Potential issues of ordinary shares

The Company has two Inland Revenue approved employee share option schemes under which options to subscribe for ordinary shares may be granted. During the year ended 30 June 2003 options over 100,000 shares were granted *under the 1994 executive share option scheme with an exercise price of 265p exercisable until 24 February 2013.* Options over 1,088,456 shares were also granted under the Ricardo plc 2000 Savings Related Share Option Scheme with an exercise price of 233.4p exercisable until 31 May 2006, 2008 or 2010, for 3, 5 and 7 year options, respectively. Options over 460,280 shares were exercised and 299,925 options lapsed during the year. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Calendar year of grant	Exercise prices pence	Exercise period	**2003 Numbers**	2002 Numbers
1994	138.0-140.0	1997-2004	**4,000**	4,000
1996	114.0	1999-2006	**181,000**	183,000
1997	114.8	2001-2005	**120,706**	344,191
1999	281.6	2002-2003	**–**	343,945
2000	416.0	2004-2008	**114,123**	274,733
2001	381.0	2004-2011	**100,000**	100,000
2002	233.4	2005-2010	**1,058,291**	–
2003	265.0	2006-2013	**100,000**	–
			1,678,120	1,249,869

In addition, at 30 June 2003, the ESOP trustee held 67,000 ordinary shares (2002: 67,000) to satisfy outstanding options granted under the 1995 Executive Share Option Scheme. The outstanding options are exercisable until 11 December 2004 at an exercise price of 148.0p.

19 Called up share capital

The Company has taken advantage of the exemptions in UITF abstract 17 (revised 2000) – Employee Share Schemes relating to the Savings Related Share Option Scheme.

Under the Group's LTIP, awards may be made to beneficiaries under the scheme which may result in the issue of up to 475,158 ordinary shares by 30 June 2005.

20 Reserves

Group	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	LTIP reserve £'000	Profit and loss account £'000
At 1 July 2002	9,767	40	967	594	32,293
Exchange rate movements	–	–	–	–	(997)
Arising on shares issued	2,287	–	–	–	–
Long term incentive plan credit	–	–	–	(9)	–
LTIP shares purchased	–	–	–	(381)	–
Quest contributions	–	–	–	–	(415)
Profit for year	–	–	–	–	7,733
At 30 June 2003	**12,054**	**40**	**967**	**204**	**38,614**

The cumulative value of goodwill at 30 June 2003 resulting from acquisitions, which has been written off to reserves is £12,122,000 (2002 – £12,122,000).

Company	Share premium account £'000	Capital redemption reserve £'000	LTIP reserve £'000	Profit and loss account £'000
At 1 July 2002	9,767	40	594	8,380
Arising on shares issued	2,287	–	–	–
Long term incentive plan credit	–	–	(9)	–
LTIP shares purchased	–	–	(381)	–
Profit for year	–	–	–	155,889
At 30 June 2003	**12,054**	**40**	**204**	**164,269**

Of the profit and loss account reserves at 30 June 2003 £27,763,000 is available for distribution.

The holding company profit and loss account has not been presented, as permitted by Section 230 of the Companies Act 1985. The Company has made a profit for the financial year of £160,372,000 (2002 – £5,758,000).

21 Net cash inflow from operating activities

	2003 £'000	2002 £'000
Operating profit	**15,305**	16,495
Depreciation charges	**9,495**	9,117
Goodwill amortisation	**281**	13
Profit on sale of tangible fixed assets	**(15)**	(14)
Long term incentive plan (credit)/charge	**(9)**	455
Increase in stock	**(257)**	(195)
Decrease/(increase) in debtors	**2,228**	(3,531)
(Decrease)/increase in creditors	**(7,538)**	7,902
Net cash inflow from operating activities	**19,490**	30,242

22 Reconciliation of net cash flow to movement in net debt

	2003	2002
	£'000	*£'000*
(Decrease)/increase in cash	**(22,392)**	16,803
Movement in debt	**6,462**	1,210
Movement in finance leases	**940**	–
Change in net (debt)/funds from cash flows	**(14,990)**	18,013
Loans and finance leases acquired with subsidiaries	**(6,210)**	–
Translation difference	**70**	637
Movement in net (debt)/funds in year	**(21,130)**	18,650
Net funds at 1 July	**19,938**	1,288
Net (debt)/funds at 30 June	**(1,192)**	19,938

23 Analysis of net debt

	At 1 July 2002	Cash flow	Non cash movement	Exchange movement	**At 30 June 2003**
	£'000	*£'000*	*£'000*	*£'000*	***£'000***
Cash in hand	28,090	(21,932)	–	(106)	**6,052**
Overdrafts	(1,312)	(460)	–	100	**(1,672)**
Sub total	26,778	(22,392)	–	(6)	**4,380**
Debt due after 1 year	(6,840)	6,462	(5,270)	76	**(5,572)**
Finance leases	–	940	(940)	–	**–**
Total	19,938	(14,990)	(6,210)	70	**(1,192)**

The non cash movement relates to finance lease obligations acquired on the purchase of the business and assets of Gemini Transmissions Limited and debt acquired on the acquisition of the PROTOtechnik – IFT group of companies. Part of the consideration for the purchase of Tarragon Embedded Technologies Limited comprised shares.

Further details of the acquisitions are described in note 24.

24 Acquisitions

The Group completed these acquisitions during the year:

Name	Date	Percentage Of Share Capital Acquired
The PROTOtechnik – IFT group of companies	30 June 2003	100%
Tarragon Embedded Technologies Limited	5 February 2003	100%
Gemini Transmissions Limited (business and assets)	9 July 2002	N/A

24 Acquisitions

All acquisitions were accounted for using acquisitions accounting. All goodwill on these acquisitions has been capitalised as an intangible fixed asset and is finalised on all acquisitions except for the PROTOtechnik – IFT group of companies. The assets and liabilities of the PROTOtechnik – IFT group of companies are set out below:

	Book and provisional fair value *£'000*
Fixed assets	
Tangible fixed assets	**4,514**
Current assets	
Stocks and work in progress	**4,808**
Debtors	**5,203**
Cash at bank	**432**
Total assets	**14,957**
Liabilities	
Bank overdraft	**(460)**
Loans	**(5,270)**
Creditors	**(4,351)**
Total liabilities	**(10,081)**
Net assets	**4,876**
Goodwill	**20,175**
Purchase consideration	**25,051**
Satisfied by:	
Cash	**15,310**
Deferred consideration	**9,321**
Acquisition expenses	**420**
	25,051

The book values based on management accounts at the date of acquisition, 30 June 2003, translated at the actual exchange rate on that day.

The directors have not completed all of their acquisition enquiries and consequently the book values of the assets and liabilities acquired are considered to be their provisional fair values. These fair values will be finalised in the 2004 Annual Report & Accounts.

24 Acquisitions

Other acquisitions

	Book value £'000	Accounting policy realignments £'000	Other adjustments £'000	**Fair value £'000**
Fixed assets				
Tangible fixed assets	3,172	(414)	–	**2,758**
Current assets				
Stocks	1,445	(430)	(575)	**440**
Debtors	865	–	113	**978**
Cash at bank	151	–	–	**151**
Total assets	5,633	(844)	(462)	**4,327**
Liabilities				
Finance lease obligations	(940)	–	–	**(940)**
Creditors	(1,110)	–	(293)	**(1,403)**
Total liabilities	(2,050)	–	(293)	**(2,343)**
Net assets	3,583	(844)	(755)	**1,984**
Goodwill	–	–	–	**6,410**
Purchase consideration				**8,394**

Satisfied by:	
Cash	**3,553**
Shares allotted	**1,165**
Deferred consideration	**3,242**
Acquisition expenses	**434**
	8,394

The book values are based on the completion accounts of the respective entities acquired. All fair value adjustments are considered to be final.

The fair value accounting policy alignments were made to bring the accounting policies in line with those of the Group. The other fair value adjustment in respect of stock is the write off of obsolete stock. The adjustment in respect of debtors relates to the recognition of a lease rental incentive, whilst the adjustment to creditors is in respect of warranty liabilities.

25 Commitments

(a) Capital commitments

The Group's commitments for capital expenditure not provided for were as follows:

	2003	2002
	£'000	*£'000*
Contracted	**6,248**	448

The Company had capital commitments of £5,568,000 at 30 June 2003 and £NIL at 30 June 2002.

(b) Operating leases

The Group's commitments for operating lease payments due in the next year are as follows:

	2003		2002	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	***£'000***	*£'000*	*£'000*
In respect of leases expiring:				
Within one year	**156**	**188**	42	178
Between one and five years	**394**	**316**	315	365
After five years	**1,577**	**10**	1,383	–
	2,127	**514**	1,740	543

The Company's commitments for operating lease payments due in the next year are as follows:

	2003		2002	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	***£'000***	*£'000*	*£'000*
In respect of leases expiring:				
Within one year	**–**	**–**	–	–
Between one and five years	**36**	**20**	74	27
After five years	**429**	**–**	385	–
	465	**20**	459	27

26 Pensions

The Group operates pension schemes available to all of its United Kingdom employees, the assets of which are held in separate trustee administered funds. The largest funds are the Ricardo Group Pension Fund ("RGPF"), a defined benefit scheme, and Ricardo International Pension Scheme ("RIPS"), a defined contribution scheme. The pension costs relating to the RGPF are assessed in accordance with the advice of Watson Wyatt LLP, qualified actuaries, using the attained age method. The latest actuarial valuation, carried out by Barnett Waddingham, qualified actuaries, was at 5 April 2002. At that date, the market value of the assets of the fund amounted to £43.5 million and was sufficient to cover 83% of the benefits that had accrued to members, after allowing for expected future increases in earnings. On the alternative minimum funding requirement valuation basis, which was required under the Pensions Act 1995 as part of the triennial valuation of the scheme, the ratio of assets to liabilities was 91%. The next triennial valuation is scheduled to be carried out as at a date no later than 5 April 2005.

The principal assumptions made by the actuaries were that investment returns would comprise 5.2% per annum on gilts, in the long term, and 7.7%, in the long term, on equities, pensionable salaries would rise by 4.3% per annum and pensions would rise at a minimum of 3.25% per annum on the whole pension. It is assumed that future price inflation would rise at a rate of 2.8% per annum.

26 Pensions

The pension charge of £3,942,000 (2002: £2,049,000) comprises £2,319,000 (2002: £770,000) relating to RGPF, £773,000 (2002: £695,000) relating to RIPS, £482,000 (2002: £236,000) relating to company FURBS contributions and £368,000 (2002: £348,000) relating to various money purchase plans. The spreading of the surplus in RGPF using the mortgage method over 12 years, the average remaining service lives of employees, resulted in no movement in the year (2002: £898,000). A prepayment of £795,000 (2002: £795,000) is held within the balance sheet, in accordance with the SSAP24 – Accounting for Pension Costs, being payments into RGPF in excess of the pension charge.

Additional disclosure required by FRS17 – retirement benefits

A full actuarial valuation was completed as at 5 April 2002 and updated to 30 June 2003 by Watson Wyatt LLP, qualified actuaries. The major assumptions made were:

	At 30 June 2003	At 30 June 2002	At 30 June 2001
Rate of increase in pensionable salaries	**4.00%**	4.30%	4.75%
Rate of increase in pensions in payment			
Pre 1 July 2002 accrual	**3.00%**	3.00%	3.25%
Post 1 July 2002 accrual	**2.50%**	–	–
Rate of increase in pension in deferment	**2.50%**	–	–
Discount rate	**5.35%**	5.88%	6.12%
Inflation	**2.80%**	2.80%	2.75%

The assets of the scheme and the expected rate of return were:

	Long term rate of return expected at 30 June 2003	**Value at 30 June 2003 *£'000***	Long term rate of return expected at 30 June 2002	Value at 30 June 2002 *£'000*	Long term rate of return expected at 30 June 2001	Value at 30 June 2001 *£'000*
Equities	**7.5%**	**26,960**	7.5%	30,213	8.0%	34,303
Bonds	**4.6%**	**6,814**	5.0%	5,689	5.0%	6,600
Cash	**4.0%**	**3,109**	4.0%	1,954	4.5%	2,774
Other	**6.0%**	**1,713**	5.0%	1,675	5.0%	1,669
		38,596		39,531		45,346

26 Pensions

The following amounts at 30 June 2003 and 30 June 2002 were measured in accordance with the requirements of FRS17:

	At 30 June 2003	At 30 June 2002
	£'000	*£'000*
Total market value of assets	**38,596**	39,531
Present value of scheme liabilities	**(70,351)**	(62,102)
Deficit in the scheme	**(31,755)**	(22,571)
Related deferred tax asset	**9,527**	6,771
Net pension deficit	**(22,228)**	(15,800)

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss reserve at 30 June 2003 would be as follows:

	At 30 June 2003	At 30 June 2002
	£'000	*£'000*
Net assets	**64,938**	56,191
Pension prepayment	**(795)**	(795)
Net pension deficit	**(22,228)**	(15,800)
Net assets including net pension deficit	**41,915**	39,596
Profit and loss account reserve	**38,614**	32,293
Pension prepayment	**(795)**	(795)
Net pension deficit	**(22,228)**	(15,800)
Profit and loss reserve	**15,591**	15,698

The following amounts would have been recognised in the performance statements in the year to 30 June 2003 under the requirements of FRS17:

	At 30 June 2003	At 30 June 2002
Analysis of amount charged to operating profit	***£'000***	*£'000*
Current service cost	**(1,206)**	(1,164)
Past service cost	**(150)**	(76)
	(1,356)	(1,240)
Analysis of amount charged to other finance costs		
Expected return on pension scheme assets	**2,732**	3,303
Interest on pension scheme liabilities	**(3,643)**	(3,453)
	(911)	(150)
Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	**(4,243)**	(9,671)
Experience gains and losses arising on the scheme liabilities	**542**	(840)
Changes in assumptions underlying the present value of the scheme liabilities	**(5,385)**	152
Actuarial loss recognised in the STRGL	**(9,086)**	(10,359)

26 Pensions

Movement in deficit during the year

	£'000
Deficit in the scheme at beginning of year	(22,571)
Movement in the year:	
Current service costs	(1,206)
Contributions	2,169
Past service costs	(150)
Other finance costs	(911)
Actuarial loss	(9,086)
Deficit in the scheme at end of the year	***(31,755)***

In the year to 30 June 2003, employer's and employees' contributions increased by 4% and 1% respectively. From 1 July 2003, employees' contributions increased by a further 1%. Additionally, the definition of pensionable pay has been amended.

Details of experience gains and losses for the year to 30 June 2003

		Year to 30 June 2002
Difference between the expected and actual return on scheme assets		
Amount (£'000)	**(4,243)**	(9,671)
Percentage of scheme assets	**11.0%**	25%
Experience gains and losses on scheme liabilities		
Amount (£'000)	**(542)**	(840)
Percentage of the present value of the scheme liabilities	**0.8%**	1.0%
Total amount recognised in the statement of total recognised gains and losses		
Amount (£'000)	**(9,086)**	(10,359)
Percentage of the present value of the scheme liabilities	**12.9%**	17%

27 Contingent liabilities

Proceedings have been commenced against the Company relating to work performed for a non-automotive client, which purports to have suffered losses of approximately £54 million. The directors remain of the opinion that the claim will be successfully defended and accordingly no provision has been made in respect of this matter.

At 30 June 2003 subsidiaries had entered into guarantees and performance bonds totalling £474,000 (2002: £474,000). The Company has given a guarantee in respect of certain bank overdrafts of its subsidiaries.

28 Derivatives and other financial instruments

Objectives, policies and strategies

The financial risks faced by the Group comprise interest rate risk, liquidity risk and currency risk. The Board reviews and agrees policies for managing each of these risks.

As permitted by FRS13, short term debtors and creditors have been excluded from all of the numerical disclosures, other than the currency risk disclosures.

The Group's financial instruments comprise floating rate borrowings, the main purpose of which is to raise finance for the Group's operations and the use of forward foreign exchange contracts to manage currency risks.

28 Derivatives and other financial instruments

Interest rate risk

The Group does not consider interest rate risk as significant and the current policy is to maintain 100% of its borrowings at floating rates (2002: 100%). However, this policy is kept under regular review, as appropriate, by the Board. At the year end all of the Group's borrowings were at floating rates.

Liquidity risk

As regards liquidity, the Group's policy has throughout the year been to maintain a mix of short and medium term borrowings with its bankers. Short term flexibility is provided by overdraft facilities. Details of the year-end position, which is in accordance with this policy and consistent with prior years, are given in notes 16 and 17 to the financial statements. It is, in addition, the Group's policy to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of the Group's liquidity. At the year end, the Group had committed facilities of £26.7m (2002: £29.8m) with its banks, 16.8% (2002: 27.4%) of which was drawn down. These facilities are subject to periodic review.

Currency management

The Group faces currency exposures on the translation of profits earned in overseas subsidiaries, primarily in the US and in future Germany, and on trading transactions undertaken by its subsidiaries in foreign currencies.

The Group is also subject to currency exposures on the translation of the net assets of its overseas subsidiaries, in the US and Germany.

The Group hedges its profit translation exposures by taking out forward exchange contracts of up to eighteen months forward against between 50% and 100% of both the US and German subsidiaries' budgeted profits. This policy which was implemented in January 2001 and updated in June 2003 has been applied consistently throughout the year. The actual movement in the exchange rate has resulted in a credit to profit of £199,000 (2002: charge £132,000). At the year end those forward exchange contracts had been settled leaving £NIL outstanding (2002 £NIL) and all exchange gains or losses realised.

The Group does hedge a proportion of its transactional exposures by taking out forward foreign exchange contracts against its anticipated and known sales and purchases. The decision to hedge is influenced by the size of exposure, the certainty of it arising, the trading and market position of the respective company in which the exposure arises and the current exchange rate. At the year end there were three (2002 – two) forward exchange contracts outstanding in respect of transactional exposures, Euro 2,500,000 Euro 2,500,000 and Euro 10,000,000 were sold forward for settlement in September 2003, December 2003 and June 2004 at Euro/Sterling rates of 1.3941, 1.3900 and 1.4368 respectively.

In its updated foreign exchange risk policy approved by the Board of Directors in June 2003, the Group has stated that the hedging of the net assets or liabilities of its existing overseas subsidiaries is no longer appropriate, as any exchange adjustment does not impact on operating profits, and therefore at the year end none (2002: 100%) of the assets or liabilities were covered.

Numerical disclosures of interest rates and currency profile of financial assets and liabilities:

			2003	
	Total £'000	Floating rate financial liabilities £'000	No interest financial liabilities £'000	Floating rate financial assets £'000
Currency				
Sterling	**(2,366)**	**(340)**	**(3,291)**	**1,265**
US dollars	**3,157**	**(1,515)**	–	**4,672**
Euro	**(13,339)**	**(4,473)**	**(9,321)**	**455**
Swiss Franc	**(1,256)**	**(1,256)**	–	–
	(13,804)	**(7,584)**	**(12,612)**	**6,392**

28 Derivatives and other financial instruments

	Total £'000	2002 Floating rate financial liabilities £'000	No interest financial liabilities £'000	Floating rate financial assets £'000
Currency				
Sterling	22,217	(340)	(125)	22,682
US dollars	(4,854)	(8,152)	–	3,298
Euro	2,450	–	–	2,450
	19,813	(8,492)	(125)	28,430

Further details on the interest profile of the floating liabilities can be found in notes 16 and 17.

Fair value of financial assets and liabilities

The following are the book values of the Group's financial assets and liabilities at 30 June 2003. The fair values closely approximate to book values.

	2003 £'000	2002 £'000
Cash at bank and in hand	**6,052**	28,090
Bank overdrafts	**(1,672)**	(1,312)
Loans repayable after more than one year	**(5,572)**	(6,840)
Cash deposit	**340**	340
Loan notes	**(340)**	(340)
Onerous leases	**(49)**	(125)
Deferred consideration	**(12,563)**	–
	(13,804)	19,813

Summary of methods and assumptions

Short term borrowing and deposits	–	The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long term borrowings	–	The fair value of bank loans approximates to the carrying value in the balance sheet as they are all floating rate loans where payments are reset to market rates at regular intervals.

28 Derivatives and other financial instruments

Numerical disclosures relating to currency exposures

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences arising on the retranslation of the assets and liabilities are taken to the profit and loss account of the group companies and the group.

	2003 Net foreign currency monetary assets/(liabilities)			
	Sterling	US Dollar	Euro	Swiss Franc
	£'000	*£'000*	*£'000*	*£'000*
Functional currency of group operation				
Sterling	–	**17,265**	**5,259**	–
US Dollar	**68**	–	–	–
Euro	–	–	–	**(1,256)**
	68	**17,265**	**5,259**	**(1,256)**

	2002 Net foreign currency monetary assets/(liabilities)		
	Sterling	US Dollar	Euro
	£'000	*£'000*	*£'000*
Functional currency of group operation			
Sterling	–	(1,802)	4,247
US Dollar	36	–	–
	36	(1,802)	4,247

29 Minority interests

	Equity minority interest	Non-equity minority interest	Total
	£'000	*£'000*	*£'000*
At 1 July 2002	283	–	283
Minority's interest in the profit on ordinary activities after tax	194	–	194
Minority's interest in subsidiaries' fixed rate preference shares	–	142	142
Foreign exchange movement	(29)	–	(29)
At 30 June 2003	**448**	**142**	**590**

30 Related parties

P.T. Ward is a non-executive director of Ricardo plc and a member of the Harley Davidson Inc. European Advisory Board. The Group has traded with Harley Davidson Inc. during the year on normal commercial terms of trade.

31 Principal operating subsidiaries

Each subsidiary company operates principally in the country in which it is incorporated.

The Company owns directly, or indirectly, 100% of the issued share capital of the following principal operating *subsidiaries which are included in the consolidated accounts:*

Incorporated in Great Britain

(and registered in England and Wales)

Ricardo UK Limited

Ricardo Tarragon Limited

Incorporated in Germany

Ricardo GmbH ("GmbH")

*IFT Ingenieurgesellschaft für Fahrzeugtechnik mbH

*IFT-Prüftechnik GmbH

*Prototechnik GmbH Automobilteile – Prototypentechnik

Incorporated in Hungary

*IFT Hungaria Kft

(*together the PROTOtechnik – IFT group of companies)

Incorporated in the USA

Ricardo Inc. ("Rinc.")

The subsidiaries owned directly by the Company are included in investments (note 12).