Ricardo plc
Annual Report & Accounts 2004

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Group Five Year Summary

Turnover increased to **£146.2m**

Profit before tax, goodwill amortisation and exceptional costs reduced to **£1.8m**

Earnings per share before goodwill amortisation and exceptional costs down to **4.3p**

Loss for the financial year **£1.3m**

Basic loss per ordinary share **(2.6)p**

Dividends per share **9p**

Five Year Performance Record

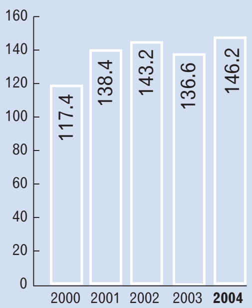
	2000 £'000 (restated)	2001 £'000 (restated)	2002 £'000 (restated)	2003 £'000 (restated)	**2004 £'000**
Turnover	121,107	139,911	143,178	136,608	**146,242**
Turnover from continuing operations	117,376	138,370	143,178	136,608	**146,242**
Profit before taxation, goodwill amortisation and exceptional costs	12,800	15,118	16,672	16,119	**1,800**
Profit/(loss) for the financial year	8,923	10,643	12,061	12,184	**(1,277)**
Total shareholders' funds	37,441	47,640	55,809	62,860	**55,663**
Basic earnings per ordinary share before goodwill amortisation and exceptional costs	18.9p	22.3p	25.0p	25.4p	**4.3p**
Basic earnings/(loss) per ordinary share	18.9p	22.2p	24.9p	24.8p	**(2.6)p**
Dividends per ordinary share	7.4p	7.8p	8.6p	9.0p	**9.0p**

The four years ended 30 June 2003 have been restated following the adoption of UITF 38 Accounting for ESOP trusts.

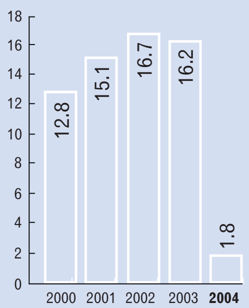
The year ended 30 June 2000 has not been restated to reflect the adoption of FRS19 Deferred tax.

The three years ended 30 June 2002 have not been restated following the change in accounting policy for software recognition under FRS 5 application note G "Revenue recognition".

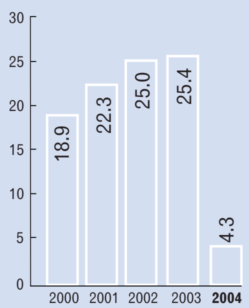
Turnover from continuing operations (£m)



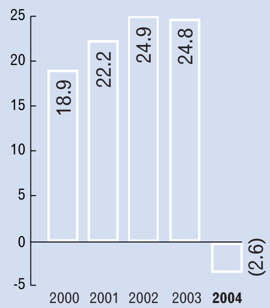
Profit before taxation, goodwill amortisation and exceptional costs (£m)



Basic earnings per ordinary share before goodwill amortisation and exceptional costs (p)



Basic earnings/(loss) per ordinary share (p)



Ricardo is a leading provider of innovative technology, engineering services and strategic consulting to the world's automotive industries.

From fundamental research to the management and production implementation of large scale new product development programmes, Ricardo is able to take on the greatest challenges in vehicle, engine, transmission and driveline design, engineering, testing and systems integration.

With a network of advanced and well equipped technical centres in the UK, North America, Germany and the Czech Republic, Ricardo serves a wide and balanced customer base represented by the leading global automakers, vehicle component and system manufacturers, and automotive regulatory agencies. Ricardo also serves niche sectors such as motorcycle, heavy duty truck, off-highway vehicle, and marine and locomotive propulsion system manufacturers, as well as leading teams in all areas of motorsport.

The need to minimise the environmental impact of future vehicles is a major driver for our own technology research programme, one of the principal means by which Ricardo maintains its technological edge. Recent benefits of this approach are apparent, for example, in the leading position Ricardo now occupies in the development of hybrid vehicle systems and of clean diesel and gasoline engine technologies offering improved fuel economy, reduced CO_2 and low regulated exhaust emissions.

With our commitment to excellence, industry leadership in technology and large knowledge base, our greatest asset is our people, approximately 70 per cent of whom are highly qualified multi-disciplined professional engineers and technicians. Together our vision is to make Ricardo the natural partner of choice for all our customers in the automotive industry.



Engineering Support for the First Jaguar Diesel

Jaguar's first diesel has earned praise for its performance and refinement and is already a major sales success. The company had recognised the rapidly growing significance of the market for premium diesel products in Europe and had identified the X-TYPE as providing an ideal platform for its first diesel. However, with an already demanding schedule of new model programmes Jaguar decided that it would be prudent to bring in additional engineering capacity to support the vehicle development programme. It was vital that the selected partner came with a track record in premium diesel engineering programmes – a pedigree clearly demonstrated by Ricardo.

Jaguar had access through its parent to a refined and highly efficient high-performance 2.0 litre diesel engine which appeared well suited to application in the X-TYPE. However, it needed to demonstrate that the two elements were capable of being brought together and engineered to the level of refinement and driveability that are the hallmarks of the Jaguar brand. Before committing to a model year programme the concept needed to be demonstrated in a tangible manner, and for this reason Jaguar asked Ricardo to assist in the preparation of a single vehicle concept demonstrator. The demonstrator was based on a production X-TYPE car and used the major diesel powertrain elements supplied by Ford as well as a range of bespoke components and systems required to effect the installation and deliver the premium brand targets. These included intake and exhaust systems, electrical harnesses, cooling pack, steering and chassis components, and a fundamentally new NVH pack. In order to meet the stringent driveability standards set by Jaguar, the drivetrain calibration was adapted in order to create the characteristic Jaguar 'feel'.

Jaguar established a joint project team, with Jaguar and Ricardo engineers operating within the Ford global product development processes. The core of the team was based at a dedicated and secure project office and was empowered to draw upon specialist resources as necessary throughout Jaguar and Ricardo, as dictated by the requirements of the programme. Close integration between Jaguar and Ricardo, between the programme team and the nominated component and system suppliers, and between development and manufacturing operations, was essential for project success.

While much of the powertrain required only minor adaptation, many key systems and components needed to be re-engineered from scratch for the X-TYPE installation. Full component engineering programmes were needed for these and considerable analysis effort was used in, for example, the simulation and optimisation of the intake and exhaust systems and underhood airflow structure using the Ricardo VECTIS Computational Fluid Dynamics (CFD) package. The integration of control systems was also a major focus for the development team. Jaguar needed to develop a unified communications structure and harnessing architecture to ensure effective operation of vehicle systems including DSC (Dynamic Stability Control), ABS, cruise control and HVAC. A significant aspect of this challenge was to define software interfaces in such a way that key operating parameters from both the existing X-TYPE 2.0L gasoline vehicle and the diesel engine were retained in order to minimise the amount of recalibration required. Close collaboration between Jaguar, Ricardo and supplier control and calibration teams was crucial to ensure that systems could be developed and validated in parallel, reducing iterations and compressing the time taken by around 50 per cent.

The early involvement of the production plant in the development process of the vehicle was viewed by Jaguar as critical to the achievement of the programme timing and quality targets. As such, the new model was brought into the production plant one full prototype stage ahead of the company's usual product development sequence. The programme team prepared assembly kits for each of these prototypes at Ricardo and shipped them to the Halewood plant ready for the prototype build. Key members of the team relocated to Halewood for the duration of the build process, which was run in a highly controlled manner in parallel with the main X-TYPE production line.

With the conclusion of Ricardo engineering support at Job One plus ninety days and delivered both to cost and time, the X-TYPE 2.0D achieved the highest build quality rating of any new product launched by Jaguar. Moreover, the positive response to the company's first diesel was already apparent in the flow of customers into Jaguar showrooms throughout Europe. This success continues with Jaguar reporting that in the first half of 2004 UK sales of the diesel model are up 37 per cent. on the previous year and that it now represents 19.7 per cent. of total X-TYPE production volume. The diesel has helped drive a global X-TYPE sales increase of 22 per cent. year on year and was a major contributor to Jaguar's record sales performance in the UK in the first half of 2004.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Engineering the Dual Clutch Transmission for the Chrysler ME Four-Twelve

The dramatic debut of the 400 km/h Chrysler ME Four-Twelve concept car at the 2004 North American International Auto Show in Detroit placed the Chrysler Group firmly within the supercar league. Powered by a quad-turbo V12 capable of delivering 850 hp and 1150Nm of torque all the way from 2500 rev/min, the sleek two-seater is equipped with an innovative and high performance transmission system developed by Ricardo.

Ricardo has a well deserved reputation as a world-leader in the development of high performance transmissions and was thus a natural choice of partner for Chrysler for the ME Four-Twelve. Ricardo was also in a position to work to extremely tight timescales on the supercar programme, as it had already commissioned an internal research programme into Dual Clutch Transmission (DCT) technology aimed at addressing very similar performance goals to those envisaged for Chrysler's supercar.

Codenamed 'Freeway', the joint trans-Atlantic programme to develop the ME Four-Twelve transmission involved over 30 engineers at Ricardo's Midlands Technical Centre in the UK in addition to colleagues at Chrysler and at the Ricardo Technology Campus in Detroit. According to Dan Knott, Director of Street and Racing Technology at the Chrysler Group, "We gave this project to the Ricardo team on July 1st 2003, and they worked with us in two phases – the first was to deliver a transmission in mid November for the show car, which was completed in December. The second phase was to develop hardware and software for a development car, and the Ricardo team worked with us on development work from May through August, when the car was first driven by media. We couldn't have done it without our Ricardo partners."

By adopting a dual-clutch approach for the ME Four-Twelve, Ricardo was able to ensure that the massive torque is transmitted to the wheels without interruption. Gear changes in a well executed DCT are extremely smooth and the powertrain efficiency of this breakthrough technology can be so good that fuel consumption is actually less than would be expected of a manual or conventional automatic equivalent. Performance also, can be considerably improved over a conventional automatic system. The ME Four-Twelve transmission may be operated in either manual or automatic mode at the discretion of the driver. In manual mode gear selection is sequential via paddles or shift lever control, whereas the automatic mode is operated in the same manner as a conventional system.

The transmission's smoothness and efficiency stem from an innovative layout which, in effect, operates as two parallel but integrated automated manual transmissions. The torque is transmitted to the rear wheels via one of the two paths through the transmission, while the non- torque transmitting path is used to select the next gear. The dual clutches which select between the two torque paths are mounted upstream of the transmission within the transaxle. Their output is delivered to the transmission via two concentric shafts, the inner transmitting torque to the even gears and reverse, while the outer shaft transmits torque to the odd-numbered gears. During gear changes, torque is transferred between the clutches in a manner which allows absolute predictability in the engagement and release of the clutches, making for near-perfect smoothness when shifting from one transmission path to the other. As with every aspect of the driveline's operation, sophisticated electronic control systems monitor every key parameter and ensure that the engine revs are automatically and very precisely matched to those of the transmission in order to minimise the level of clutch slippage required.

Building on its established reputation in the design and development of high volume transmission and driveline products for the world's major automakers, the successful delivery of the Chrysler ME Four-Twelve further reinforces Ricardo's position as a leader in the design, development and manufacture of high performance driveline systems both for automotive and competition applications.

Advanced Gasoline Combustion Research

Ricardo engineers are actively engaged in research programmes with the world's leading automakers, investigating advanced automotive technologies aimed at delivering improvements in fuel efficiency and reduced CO_2 emissions in future production vehicles. While many such programmes relate to alternative powertrain applications such as hybrid vehicles, a significant research effort continues in the development of diesel and gasoline combustion technology.

One such project recently completed with the co-operation and assistance of Ford Motor Company related to the investigation of Lean Boost Direct Injection (LBDI®) gasoline combustion. This concept uses conventional gasoline engine production processes and hardware but has been demonstrated as having the potential for significant savings in fuel consumption while maintaining or improving performance and driving characteristics.

The research team produced a technology demonstrator for LBDI® based on a standard European production demonstrator vehicle which was shown to deliver substantial fuel savings in excess of 20 per cent. over the New European Development Cycle (NEDC) cycle compared with a typical equivalent current production vehicle. In addition, the vehicle demonstrated a much improved driving experience which combines high levels of mid-range torque more typical of an advanced HSDI diesel, but coupled with the punchy high-speed acceleration and good refinement expected of a gasoline engine. Moreover, the technology has also demonstrated CO_2 emissions similar to those of a diesel engine of equivalent rating but at a substantially lower estimated production cost.

The LBDI® concept uses lean operation to reduce full-load octane requirement and hence allows operation at higher compression ratios than is the case in a conventional gasoline engine. The low exhaust temperatures of LBDI® combustion enabled the use of a standard production diesel Variable Nozzle Turbine (VNT) turbocharger in the demonstrator vehicle, giving advantages in low speed torque and reduced lag. For emissions, a Lean NOx Trap (LNT) was used in addition to a three-way catalyst (TWC), a combination capable of meeting Euro IV limits and beyond.

Since the results of this research were originally reported at the Aachen Automobile and Engine Colloquium in September 2003, Ricardo has shown the LBDI® demonstrator vehicle to its clients throughout Europe and Japan, generating considerable interest in this new and highly efficient gasoline combustion technology.

Engineering Support for the Renaultsport Mégane 225

The Renault X84 Mégane programme made automotive industry history, with seven mainstream models developed in-house and launched in just 18 months following its debut at the 2002 Paris Motor Show. What is more, the whole seven-model set was developed by Renault within the space of just 29 months – another sector record.

Yet from the early stages of the programme it was clear that while the company's highly organised in-house vehicle development staff had sufficient capacity to undertake the seven core model programmes, the specialised nature of the high performance Renaultsport Mégane 225 version meant that its development was ideally suited to the specialised skills available from a leading independent automotive development organisation such as Ricardo. What Renault Sport needed was a turnkey programme delivering a complete and polished high-performance car into a smooth production start-up, but with minimum load on its own already hard-pressed staff. While the build numbers were to be low – a maximum of 25-30 a day – the stakes were high: top-performing models such as the Renaultsport Mégane 225 provide a valuable halo effect upon the brand which can have a major influence on public perception (and thus sales) of the commercially vital larger volume models. World-class engineering and programme delivery were thus essential requirements. In the words of Dominique Huet, Programme Manager of Renault Sport Technologies, "We wanted a partner able to undertake the engine and vehicle development at the same time. That combination of skills is pretty rare. The final choice fell on Ricardo because of their savoir-faire in engine work and the strength of their vehicle team."

Details of a possible high performance derivative of the Mégane were discussed in a series of meetings between Renault and Ricardo beginning as early as 2000. The vehicle specification was systematically refined over a period of six months as both sides did exploratory work on the project and used their findings to assess the feasibility of the various solutions to be implemented in the programme. Ricardo was tasked with responsibility for the complete vehicle rather than simply work on the engine to provide the required 225 horsepower. Though the horsepower hurdle was in itself a significant one – at that time the target was significantly more than any existing competitor in the market – the engine development work lay comfortably within Ricardo's acknowledged area of expertise; it was by linking this work with the development of the sports model's complete chassis systems and its styling and trim upgrades that the programme would break new ground for both Ricardo and Renault. Adding yet more to the programme content was Ricardo's responsibility for establishing the manufacturing feasibility of all the design enhancements, ensuring the smooth start-up of production and dealing with any manufacturing issues until Job One plus 90 days.

Faced with the challenge of delivering 225 horsepower and over 300 Nm of torque through the front wheels, Ricardo proposed a highly innovative dual axis front suspension configuration intended to eliminate the potentially dangerous handling condition of torque steer – an acknowledged problem on high performance front wheel drive vehicles. For the engine, the increased power from the 165 horsepower of the donor engine to the required 225 was considerable. However, from its CAE simulation work the Ricardo engine team were confident that this could be delivered, perhaps the most significant challenge being to ensure that design changes were kept to a minimum such that the engine could remain commercially viable at the low production volumes. On the body, early simulation work using the Ricardo VECTIS CFD package had shown that with the much raised performance, aerodynamic issues would come increasingly into play. An aerodynamics package was developed in the shape of a very small spoiler on the back of the tailgate, and the results were vindicated with excellent stability as soon as the first correctly-bodied camouflaged prototypes could be tested at high speed in late 2002.

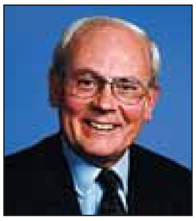
With strong support from Ricardo running until Job One plus 90 days, production start-up at Renault Sport's Dieppe plant proceeded smoothly. With all quality and performance targets met or exceeded, the programme was also delivered to time and budget. Perhaps most of all, however, the greatest indicator of success has been the independent voices praising the power, speed, ride and handling of the Renaultsport Mégane 225, reserving special acclaim for the car's mechanical refinement and smoothness at speed.


MEGANE
845 MDM 92

Board Members

Marcus Beresford CBE (Chairman)
Marcus Beresford was appointed a non-executive director on 1 October 2003 and chairman on 1 January 2004. He is 62 years old. He has had a long and distinguished career in the engineering industry principally with Smiths Industries, Siemens and GKN. He joined the Board of GKN plc in 1992 and was appointed Chief Executive in August 2001, a position he held until he retired in December 2002. He is currently a non-executive director of Cobham plc, Spirent plc and The Engineering and Technology Board. He is a fellow of the Institution of Electrical Engineers. Outside the engineering industry he has held various posts, including being a member of the Advisory Committee of Business and the Environment and a Council Member of the Open University.

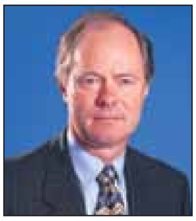
Peter Ward (Non-Executive)
Peter Ward is 58 years old and was appointed a non-executive director on 1 May 1998. He has worked in the automotive industry for over 30 years. His previous positions have included Chairman and CEO of Jardine Motors Group plc, executive director of Trafalgar Group plc, Chairman/CEO of Cunard Line, Managing Director Operations of Vickers P.L.C. and Chairman/CEO of Rolls-Royce Motor Cars. He is currently Chairman of Toad Group plc, a member of the Harley Davidson Inc. European Advisory Board and a non-executive director of DLA Group LLP.



Ian Percy, CBE (Non-Executive Deputy Chairman)
Ian Percy, who is 62 years old, was appointed a non-executive director on 1 July 2000 and is the senior independent director. He is Chairman of Kiln plc and Companies House and a non-executive director of The Weir Group plc together with a number of private companies. Former positions include Chairman of the Accounts Commission for Scotland and President of the Institute of Chartered Accountants of Scotland. He is an Honorary Professor of Accounting at Aberdeen University.

Michael Harper (Non-Executive)
Michael Harper is 59 years old and was appointed a non-executive director on 24 June 2003. He is currently Chief Executive of Kidde plc, a position he has held since 2000, having joined Kidde Group in 1984 from Vickers plc. He is a non-executive director of UMECO plc.

Rodney Westhead (Chief Executive)
Rodney Westhead, who is 60 years old, was appointed Chief Executive on 13 November 1996. He had previously been Finance Director having been appointed to that role on joining Ricardo on 2 December 1992. Before joining Ricardo he was a partner in Grant Thornton for 14 years holding a number of positions including managing partner of their London Office. He is also a non-executive director of Mouchel Parkman Group plc and AEA Technology plc.



Andrew Goodburn (Finance Director)
Andrew Goodburn is 57 years old, having qualified as a Chartered Accountant in 1969. He trained with KPMG before joining the Bowthorpe Group where he spent 11 years in various financial and commercial roles. He then spent 13 years in management consulting. He joined Ricardo in 1993 and was subsequently appointed Finance Director of Ricardo Consulting Engineers Ltd. He was appointed Group Finance Director on 7 April 1997. He is a non-executive director of Caffyns plc.

Jeremy Holt (Executive Director)
Jeremy Holt joined Ricardo in 1998 as President of Ricardo Inc. having previously held various positions in the T&N Group latterly Vice-President product engineering and marketing for the piston products business in the USA, a position he held for 5 years. He was appointed to the Board as an executive director on 1 January 2001. In addition he sits on the Ricardo Technical Steering Group which helps determine the future course of research and development activities. He is 43 years old and resides in, and is a citizen of, the US.

Stephen Parker (Executive Director)
Aged 51, Stephen Parker joined Ricardo on 1 August 2002 as the Managing Director of Ricardo Strategic Consulting from A T Kearney, one of the world's leading management consulting practices. He was employed as a Vice President of their Global Automotive Practice having responsibility for the provision of strategy and operational consulting to the executive teams of both automotive manufacturers and Tier 1 suppliers. Previous roles include Director of Business Development and General Manager Perkins Technology at Perkins Engine Group, a position he held for 8 years, as well as 8 years at PSA Peugeot Citroën.

Clive Hickman (Executive Director)
Clive Hickman was appointed to the Board as an executive director on 1 January 2003, having joined Ricardo in 1997. He was appointed Managing Director of Ricardo's UK business (with the exception of Ricardo Strategic Consulting), on 11 December 2003, having previously been Business Development Director of Ricardo Consulting Engineers Limited ("RCE") before becoming Managing Director of Ricardo Vehicle Engineering. He is 49 years old. Prior to joining Ricardo, he was Technical Director of Westinghouse Signals Limited and Engineering Director at MIRA. He has also held various positions in the automotive industry, including at Rover and GKN.

Chairman's Statement

This statement is being written after my first six months as Chairman and I would like to start by paying tribute to Sir Noel Davies, who contributed so much to the Company over the last six years. We wish him a long and happy retirement.

As I have taken up the reins, I have found a fundamentally strong company with an internationally recognised brand and an enviable technical reputation. However, the world's vehicle manufacturers have, with few exceptions, been going through a period of depressed demand and depressed prices and it is inevitable that suppliers to the industry have experienced very difficult trading conditions. These conditions have adversely affected Ricardo's performance over the last twelve months.

Review of the year

This has been a very difficult year for the Company. In the first half, three sudden programme cancellations by customers impacted the order book. The management team responded quickly to restructure the business to the lower demand levels and this, together with an improved order intake, allowed the Company to exit the year with the majority of its activities trading profitably. However, the depressed trading during the first nine months, coupled with the exceptional costs of restructuring, have resulted in an overall loss for the year.

Annual results and dividend

Profit before tax, goodwill amortisation and exceptional costs fell from £16.1m last year to £1.8m for the current year, reflecting the very difficult trading conditions. Borrowings at the end of the year were £10.3m compared with £1.2m at the beginning. The outflow included £4.3m for the construction of an additional facility at our Leamington Spa site. In view of confidence in the new financial year and future prospects, your Board has decided to hold the total dividend this year at 9.0p per share (2003:9.0p).

Strategy

Despite the difficult trading conditions, good progress has been made on a number of strategic fronts. Our new strategic consultancy business has been well received by our customers who appreciate the unique blend of strategic input backed by in-depth technology. The business has now won contracts in the US, Germany and Japan.

The integration of the Proto-technik-IFT group of companies, our German acquisition, has proceeded well and is beginning to provide the platform we need to expand our business within the Germany auto industry.

Lastly we have made steady progress in Japan where our partnership with Horiba continues to develop and our business with Japanese manufacturers continues to grow.

People

On 11 December 2003, Christopher Bates, Managing Director of RCE, resigned from the Board as a result of the restructuring of our UK operations and Gerald Andrews, Managing Director of Ricardo Driveline and Transmission Systems ("DTS") resigned on 6 September 2004. I would like to thank Christopher for his contribution to RCE and Gerald for his contribution to DTS and to wish them success in their future careers. As a result of the restructuring, Clive Hickman has taken responsibility for all UK operations, with the exception of Strategic Consulting, as Managing Director, Ricardo UK.

I would like to take the opportunity of thanking my board colleagues and all the Ricardo team. It has been a tough year throughout the business and the Company owes much to their resilience and determination in working through these difficult trading conditions.

Prospects

The pressures facing much of the world's automotive industry continue to create uncertainty in our markets. Nevertheless, the new financial year has started on a more positive note than last year and this, coupled with the steady implementation of our strategic initiatives, enables the Board to be confident of progress in the coming years.

M Beresford

20 September 2004

Annual results and dividend

Following seven years of consecutive earnings growth, the worst trading conditions Ricardo had seen in 10 years resulted in a series of project cancellations in the first half of the financial year which severely affected trading in the UK operations and necessitated a major restructuring. As a result, profit before tax, goodwill amortisation and exceptional costs fell from £16.1m to £1.8m (loss before tax £2.8m). Turnover increased from £136.6m to £146.2m including the benefits of the first full year's trading from the PROTOtechnik-IFT acquisition in Germany. Earnings per share before goodwill and exceptionals were 4.3p (loss per share 2.6p) compared to 25.4p in the prior year. Following an £11m investment in capital equipment net borrowings at the year end were £10.3m compared with £1.2m in the prior year, however gearing remains at a comfortable level of 18.3%. Capital expenditure in the new financial year and subsequent years is likely to be reduced.

However, we start the new financial year on a far more positive note with our order pipeline more than 50% up on the position 12 months ago. In view of confidence in the new financial year and future prospects, the Board has decided to hold the dividend.

Business overview

As previously announced, Ricardo's 2003/04 financial year was extremely difficult, especially in the UK. In the first half, three sudden programme cancellations impacted order intake levels which were already slowing as a result of the automotive industry downturn. Management acted quickly to restructure the business to the lower demand levels, resulting in a 20% reduction in headcount in the UK and senior management changes to give an improved marketing emphasis and sharper focus to the business. These actions have resulted in a £10m reduction in the cost base, the full benefit of which will come through in the current financial year, and have created a much stronger business going forward. In the second half of the year, productivity increased, order intake and total order book grew to £53m and the future prospects for new work steadily improved. However, as highlighted in our pre-close statement low-margin transmission work and tough markets for our vehicle engineering business in 2004 depressed results overall. This low margin work is now coming to an end and we are seeing improving prospects for the transmissions business which is now bidding on a number of major opportunities. Accordingly, we expect our results to be significantly weighted to the second half, assuming we do not experience unforeseen cancellations. The vehicle engineering business remains slow to improve and the uncertainty surrounding the UK car industry gives cause for concern.

UK

In the UK, a number of management changes have been made to strengthen the focus on productivity and growth. Our engines business had a good last quarter and the order book is improving with a better spread of customers. Our electronics business has remained profitable and continued to develop, but we are disappointed by the slow growth in this business given the high profile of electronics in today's automotive market place. Following the management changes we do now anticipate an improved performance.

At the end of the financial year, we moved into new and larger premises in Leamington, enabling us to put our three Midlands businesses on to one site. This was particularly important to motorsport and transmissions which were widely spread. The transmissions business continues to develop the latest transmissions technology which is attracting significant customer interest.

I am pleased to note the resolution of our dispute with Rolls-Royce plc.

USA

In the US, whilst we traded profitably for the year, margins were depressed. The number of bidding opportunities was high but the reluctance of domestic OEM's to commit to orders and the continued pressure on margins has been challenging. There is little sign of this changing in the short term with the traditional domestic customers. However, overseas OEM's investing in the US are starting to place development work with Ricardo. In Chicago we have nearly completed the development of the two heavy duty test cells to meet the requirements of new US, class 8 trucks, emissions legislation due in 2007. Customer interest in this new facility is high.

Germany
In Germany, our PROTOtechnik acquisition completed its first full year of trading. The business was profitable throughout the year and, after bearing the cost of interest on the acquisition price, was earnings enhancing. The German car industry has had a difficult year and held back our own development in this market. Order intake remains steady. Systems have been much improved and good progress has been made in integrating the business into Ricardo. Prospects for 2005 are improving as we continue to develop our technical consulting skills and continue to improve the existing exhaust business.

Far East
In Asia we have now established a Tokyo office with two permanent senior staff members moving from the UK and significant back up from Horiba with whom we are collaborating to build our own business in this market. Our level of activity in Japan is growing steadily as is the volume of work that is being placed with Ricardo by Japanese auto companies in the UK and US. We are actively developing business in the growing Chinese market with both the Chinese domestic auto companies and the Chinese/Western joint venture companies. Business from India, Korea and Malaysia has also been growing at a good pace.

Strategic consulting
Ricardo Strategic Consulting (RSC) has continued to grow strongly in the year. Although loss making in the period, we expect RSC to move into profit in the first half of the new financial year. Our strategic consultants are now actively involved in the UK, USA, Germany and Japan, this last benefiting from our new local presence. Strategic Consulting not only brings the prospect of good profit contribution from its own activities, it also gives the whole of Ricardo a much improved profile in the automotive industry.

Research & development
The requirement for further reductions in exhaust emissions and cost effective fuel economy improvements continue whilst the demand to reduce the time and cost required to get new products to market has also driven a range of investments in more sophisticated tools and processes. Government and consumer pressure to improve vehicle safety has continued to gather momentum.

To meet these demands, Ricardo has produced a range of demonstration vehicles and software tools that deliver practical solutions to meet these future challenges. These include an innovative cost effective gasoline engine concept called Lean Boost Direct Injection (LBDI) which offers similar fuel economy to a diesel powertrain but with the refinement of a gasoline engine, a very low emissions diesel vehicle using an advanced combustion and gas exchange system and a new approach to driveline control using an electronic differential that distributes torque to each wheel to maximise cornering stability. A range of new design and development tools have also been produced, including a suite of tools and processes to capture accurately and deliver vehicle driveability and feel, consistent with "brand" characteristics.

These demonstration vehicles have become increasingly important in providing tangible examples of Ricardo technology to our key customers. The response to demonstrators from our customers has been excellent and has focused on the breadth and strengths of Ricardo's capabilities in the integration of powertrain, driveline, vehicle engineering and control system capabilities.

The first Ricardo demonstration vehicle, i-MoGen, our diesel hybrid and now LBDI, have been driven by all the major automotive companies and have been very well received. As a result of i-MoGen, we are now working on a number of confidential customer contracts as well as two projects part funded by the UK DfT: Hytrans, a Hybrid Ford Transit with in-kind support from Ford, Valeo and Gates; and Efficient "C", a diesel hybrid vehicle with in-kind support from PSA Peugeot Citroën and QinetiQ. Hybrid contracts continue to grow and we anticipate equal success with LBDI, advanced diesel and torque control.

Two vehicle launches in the year were successfully completed namely the Renault Megane Sport and Jaguar X Type diesel, both with significant Ricardo input. In transmissions, two high profile vehicles have been unveiled with transmissions both designed and prototyped by Ricardo. They are the manual Ford GT and the automated manual, dual clutch transmission (DCT) for Chrysler ME412. This vehicle has been described as putting Chrysler in the super car league and the transmission is state of the art engineering.

People

In this, our toughest year in the last ten, I would like to thank all the staff who have worked so hard through very difficult times. It is worth noting that we have confirmed our commitment to our pension schemes and whilst this has meant some minor reductions to the final salary scheme, there have been improvements to the money purchase scheme.

The conclusion of the last AGM saw the departure of Sir Noel Davies our former Chairman, and the appointment of Marcus Beresford as the new Chairman. I would like to thank Sir Noel for his support and guidance over the past six years and wish him a happy retirement.

Outlook

The new financial year has started on a far more positive note, although the car industry is still far from healthy overall. We start the year with reasonable prospects spread across a greater number of customers, less reliance on the major US car companies and a much leaner organisation. Ricardo Germany is now a solid part of the group, RSC continues to grow and RCE, our engines business and for many years the bedrock of Ricardo, is in very good shape. Despite problems of over capacity in the car industry, there is no slow down in the rate of vehicle development, the roll out of ever more stringent emission legislation, nor the public's love affair with the car. This is backed up by huge potential markets in Asia and a determination by the Asian countries to develop their own automotive industries. Ricardo is well placed to help them achieve this ambition.

Overall, we are cautiously optimistic that the more encouraging outlook and prospects for our business and the improved profitability seen in the second half of our last financial year should continue and that we remain on track for a progressively improving performance in the current financial year.

R J Westhead

20 September 2004

Finance Director's Review

Profit and loss account

Following seven years of growth in earnings per share before goodwill amortisation, the Group suffered a series of project cancellations in the summer of 2003. The suddenness of these cancellations had an immediate impact on the activity levels and net margin, as only a small proportion of our cost base is variable. This situation severely affected trading in the UK operations and necessitated a major restructuring resulting in 228 redundancies costing £3.6m. These costs have been treated as an exceptional item, and together with goodwill amortisation totalling £1m (related to the PROTOtechnik-IFT – group of companies, Gemini and Tarragon acquisitions completed in the previous financial year), have been disclosed separately on the face of the profit and loss account.

When comparing this year's results with the prior year, it is important to recognise that this is the first full year with PROTOtechnik-IFT included in the results. However, our new German acquisition is now fully integrated into Ricardo and I am pleased to report that it was earnings enhancing in this financial year.

The tax credit of £1.6m is due mainly to government tax incentives and the effect of tax losses. Looking forward, it is likely that the Group's tax charge will be minimal for the next few years with only a small amount of overseas tax being payable.

Despite the disappointing result for the financial year ended 30th June 2004, we have held the dividend at 9p per share as we are confident that the Group will produce a satisfactory trading result in the new financial year following encouraging improvements during recent months.

Balance sheet

Intangible fixed assets (goodwill) reduced by over £10m, due mainly to reductions in deferred consideration for the PROTOtechnik-IFT and Tarragon acquisitions, as a result of performance targets not being achieved and, in the case of the German acquisition, a subsequent revision of the sale and purchase agreement.

As forecast, we had a significant capital expenditure programme in the year totalling £11m, which included two major capital projects. The first is the building of two heavy duty diesel test cells in Chicago to take advantage of the increased workload as a result of the new emissions legislation concerning truck engines that comes into effect in 2007. The second project was the construction of a third building at Leamington Spa to enable the Gemini business to be relocated to that site which will enable efficiency savings to be achieved by having all of our UK transmission and motorsport activities on one site. Looking forward, our capital expenditure for the foreseeable future is likely to be less than the depreciation charge as there are no major projects planned.

In accordance with FRS 5 Application Note G, we have changed our software revenue recognition policy which had the effect of deferring an additional £1.3m of revenue. This prior year adjustment has been reflected in the financial statements.

Cash flow

The cash outflow of £8.8m was due mainly to redundancy costs (£3.6m) and payment of the dividend (£4.5m). Looking forward, we should return to a period of sustained cash generation as our capital expenditure will be lower and our tax payments are likely to be minimal. However, as our level of activity increases, the working capital will inevitably increase and it is therefore unlikely that we will produce a positive cash flow in the new financial year.

Pensions

I am pleased to report that the funding position of our defined benefit pension scheme, under FRS 17, improved last year. The scheme's net deficit reduced from £22.2m to £19.1m due mainly to an improvement in the world's stock markets. On advice from the scheme's actuary, the Group is paying an additional £1.6m per annum into the fund on top of the normal employer's contribution, which is currently 14.4% of pensionable earnings.

Contingent liability

In the last two Annual Reports we have included a note on a claim from Rolls Royce. Defending this claim has been a considerable distraction to our management at a time when we needed to focus all our attention on the difficult trading conditions during the last twelve months. I am pleased to report that the claim has been resolved, thanks to the efforts of a number of key members of staff.

A R Goodburn
20 September 2004

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

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 segmental turnover analysis is given in note 2 to the financial statements.

Dividends

The directors propose a final dividend of 6.3p (2003 – 6.3p) per share, amounting to £3,139,000, payable on 19 November 2004 to shareholders on the register on 22 October 2004. The final dividend proposed will make a total of 9.0p (2003 – 9.0p) per share for the year.

Directors

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

*Sir Noel Davies, BSc, FCGI, Ceng, FIMechE (Chairman – retired 31 December 2003)

*M Beresford, M.A.Mech.Sc., FIEE (appointed a director on 1 October 2003 and appointed Chairman on 1 January 2004)

*P T Ward

*Professor J P Percy, CBE, LLD, CA

*J M Harper, MSc, CCMI, FRAeS

R J Westhead, FCA

A R Goodburn, FCA

C R Bates, BSc, FCA (resigned 11 December 2003)

J W Holt, BEng, MBA

S Parker

G A Andrews, BEng (resigned 6 September 2004)

Dr. C Hickman, BSc, CEng, FIMech E

*non-executive.

Board committees

Audit: J P Percy (Chairman); M Beresford; PT Ward; J M Harper

Remuneration: P T Ward (Chairman); M Beresford; J P Percy; J M Harper

Nomination: M Beresford (Chairman); PT Ward; J P Percy; J M Harper; R J Westhead

Details of the Board of Directors and Board Committees can be found on pages 34 to 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 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 £2,465,431, 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 £623,728, equivalent to 5% of the issued 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 a resolution 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.

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 2004, the following are holders of more than 3% of the Company's issued share capital:

Non-beneficial	number of shares	% of issued share capital
Morley Fund Management Ltd	4,599,185	9.21
Liontrust Asset Management	3,950,531	7.91
Hermes Pension Management	3,002,561	6.01
Legal and General Investment Management	2,838,186	5.68
Deutsche Asset Management	2,489,425	4.98
Henderson Global Investors	2,396,580	4.80
Artemis Fund Managers	2,370,676	4.75

Social and environmental issues ("S and E")

Environmental

The Board is committed to keeping the environmental impact of the Group's facilities and activities to a minimum. All major facilities in the UK and the US within the Group have been certified to ISO 14001, the Environmental Management System standard. The German facilities manage environmental matters within their ISO 9001 certification. The Board's commitment to continual reduction in environmental impact is embodied in the Ricardo Environmental Policy which is widely available via notice boards and the 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 Ricardo operates. Many of Ricardo's clients require 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 been certified to ISO 9001 and ISO 14001.

Ricardo has three principal areas of environmental impact which are grouped below.

The first area is based around the core business of engineered automotive products for the future where key business drivers are emissions, fuel consumption and noise reduction. This includes Ricardo and client funded projects where technology is developed to provide low emissions and high efficiency technologies in advance of any legislation, research projects which deliver solutions to anticipated emissions and fuel economy requirements and engineering products for current and forthcoming legislation across the world.

Examples of these positive impacts include:

- The Hy-Trans and Efficient-C collaborative projects which build on the technology developed by Ricardo in the i-MoGen mild hybrid vehicle
- An Environmental Protection Agency ("EPA") contract at Ricardo Inc on advanced hybrid technologies
- The Lean Boost gasoline engine demonstrator delivering diesel levels of fuel economy at lower cost and smaller size
- 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 demonstrate gasoline Euro 4 levels of emissions from a diesel vehicle, undertaken with Fiat-GM Powertrain and VROM (Dutch Ministry of Housing, Spatial Planning and the Environment) which has delivered the cleanest diesel vehicle known to Ricardo
- Development of advanced heavy duty combustion and after treatment systems
- Development of diesel particulate filter systems on over 15 different vehicle projects

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 area. 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 by 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. Research and development 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 recently completed and ongoing improvement projects include increasing the number of regenerative dynamometers used in test beds, upgrades to the fuel farm at Shoreham to comply with the Oil Storage Regulations and consolidating activities into fewer buildings on our current sites to improve energy and operational efficiency. Similar measures have been taken in the US to re-use electricity generated by the testing operations that have led to substantial savings and environmental benefits. The fuel storage and delivery systems and the gaseous emissions calibration gas facilities have undergone major upgrades in the past year to exceed regulatory requirements.

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 and MDEQ (Michigan Department of Environmental Quality) in the US. Processes are in place to keep up to date on regulatory issues and are subject to regular audits. The amount of environmental legislation is growing, resulting in increasing training and compliance costs. 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")

Ricardo regards local legislation as the minimum standard acceptable and continues to raise H&S targets above these levels where this is justified. In several divisions, initiatives have been taken 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, periodic external audit by the British Safety Council in the UK and Occupational Health and Safety Administration in the US.

Areas where Ricardo is focusing improvement effort are the development of policies on occupational road risk and stress. New safe systems of work are being developed for hybrid vehicles as new technologies come into the business. We are also reviewing noise controls in Europe in response to impending changes in legislation.

Our research and development programme has also started to deliver safety related vehicle control improvements. In the last year we have developed a supervisory vehicle vectoring system which improves vehicle safety especially in 4x4 vehicles by ensuring that each wheel receives the optimum amount of torque for stability.

Equal opportunities

In the US there is a 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, community activity and other donations

The Group has policies on helping charities and working with local communities. All divisions of Ricardo support local activity where possible, particularly where employees participate in fund-raising or supportive activities. Examples include employees acting as school governors and supporting local economic development organisations, use of facilities for charitable activities, supporting local Young Enterprise Schemes and sponsoring activities in which employees take part, such as the Italian Job where 3 company-owned mini cars are driven from Italy to the UK. In 2004 14 staff at Shoreham undertook a rowing challenge and rowed the equivalent of the distance between Shoreham and Prague. This raised £2,739 for the local childrens' hospice via employee and Company sponsorship. A sponsored bike ride between Leamington Spa and Shoreham raised £2,335 for the same organisation. Overall the Group has made charitable donations of £12,641 (2003: £18,052) during the year. There were no political donations in either year.

S and E responsibilities

The Chief Executive Officer is responsible for S and E issues at Board level and this is delegated to Divisional Managing Directors at an operational level. The Board reviews health, safety and environmental risks on an annual basis. Reportable accidents are reported to the Board on a monthly basis.

Research and development

The Group expended £4,421,000 during the year on research and development.

Electronic voting

This year the Company is offering those members who wish to do so the choice of recording a proxy vote electronically. Details of the way of doing this are to be found in the notice of the Annual General Meeting and on the proxy card. Recording a proxy vote, either electronically or filling in the form by hand, does not preclude members from attending and voting at the meeting should they so wish.

International Financial Reporting Standards ("IFRS")

The Council of the European Union (EU) announced in June 2002 that all European listed companies will be required to adopt EU endorsed IFRS and International Accounting Standards in the preparation of financial statements from 2005 onwards.

For Ricardo plc, this means that the 2005 Interim report, the 2006 Annual Report and Accounts and all subsequent reports, including all comparative information, will be prepared using IFRS. In addition, further transitional disclosures will be made in the 2005 Annual Report, in line with the best practice recommendations of the Committee of European Security Regulators.

Ricardo's project to manage the transition of financial reporting from the generally accepted accounting principles used by UK companies, known as UK GAAP, to international accounting is progressing well. The Group has completed initial high level assessments of the impact on its results and net assets and has commenced the initial phase of detailed quantifications of comparative information, together with considerations of the non-financial impacts that the move to IFRS will involve.

The underlying performance of the business including cash flows will, of course, be unaffected. The reported results will, however, look different and the accounting net asset value will be different from that shown under the Group's existing accounting policies.

The results of the work completed to date have identified areas that are likely to be affected by the move to IFRS from 2006. These are financial instruments, pensions, share based payments, goodwill on future acquisitions, development expenditure, deferred taxation and leases.

Details of the required adjustments for the restated periods will be provided at the appropriate time.

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 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 2004 and the amount owed to its trade creditors at 30 June 2004, was 26.9 days (2003: 34.5 days).

Auditors

The directors propose that PricewaterhouseCoopers LLP be re-appointed as auditors of the Company, and a resolution to that effect will be proposed at the Annual General Meeting.

By order of the Board

M Wightman

Secretary

20 September 2004

General policy

The remuneration of the executive directors is set by the Remuneration Committee ("the 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 2004.

The Committee, which consists solely of the non-executive directors of the Company (whose biographical details are given on page 12), 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 28), 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.

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 companies of a similar size in the markets and locations in which Ricardo operates.

The Committee has appointed and is taking advice from MM&K Ltd., an independent firm of compensation and benefit consultants, in respect of executive directors' total remuneration as part of a review being undertaken by Ricardo's head of group human resources at the request of the Committee to ensure that the objectives of the remuneration policy are being met and that the policy complies with best practice and the Code on Corporate Governance. The review covers annual bonus arrangements, the Long Term Incentive Plan (''LTIP'') and the executive Share Option Scheme. Any proposals, the introduction of which will be phased over two years, will be subject to shareholder approval and will be detailed in a separate letter from the Chairman.

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.

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, an amount to offset the tax payable on life assurance premia for cover in excess of the Inland Revenue CAP ("the CAP") and expenses reimbursed to or paid on behalf of non-executive directors for taxable travel expenses. Also included is compensation which is paid to S Parker and C Hickman, both of whom are not in a funded unapproved retirement benefit scheme, being an amount equal to 15% of the difference between the CAP and each director's basic salary.

Share based award

This represents the cash value of shares to be awarded to S Parker as part of an incentive when he joined the Company.

Performance related bonus

The Committee has set targets and determined bonus payments for performance against these targets. The 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 and takes the view that the particular parameters set are very demanding.

R J Westhead and A R Goodburn participated in a performance related bonus scheme based on the Group's basic earnings per share performance, as adjusted for goodwill amortisation and any other costs considered exceptional ("adjusted eps"), which is 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. No bonus was earned for the year ended 30 June 2004 (2003: 48.33%). J W Holt 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 ("pbt") 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 2004, no bonus was earned by J W Holt (2003: 13.9% of his basic salary). Similarly C Hickman earned no bonus in the year (2003: 13.7% of basic salary) and S Parker also earned no bonus in the year (2003: 50% of his basic salary pro rata to the number of complete months of service in that year).

In view of the low profitability in the year ended 30 June 2004 and the need for maximum focus on profit improvement, the Board has set a minimum threshold for the bonus scheme for the year ended 30 June 2005, broadly equivalent to current market expectations. If this minimum threshold is achieved, R J Westhead can earn 15% of basic salary and other directors can earn 10% of basic salary. A sliding scale award would then operate such that maximum awards of a total of 75% for R J Westhead and 55% for other directors could be achieved should profits reach the level achieved in the year ended 30 June 2003.

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. 47% is performance related whilst c. 53% 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 vest in equal amounts on each anniversary of his employment up to and including the third and was determined by reference to the average share price of Ricardo shares over the 5 working days prior to the first anniversary. 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. An award of £145,000 was made in cash for the first performance cycle which ended on 30 June 2003. No award was made for the second performance cycle which ended on 30 June 2004. Dividends on any shares vested will be rolled up and converted into shares.

Benefits in kind

These comprise principally car benefits, medical and life assurance cover and, in the case of non-executive directors, taxable travel expenses reimbursed. Further details of directors' benefits in kind can be found in the footnotes to table 1 Total Remuneration on page 31.

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 8% of pensionable earnings. 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. For R J Westhead and A R Goodburn no actuarial deduction is made if they retire 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 12 1/2% 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"). Where the FURBS does not provide the intended lump sum, the Company will provide a shortfall sum to the director on retirement. Conversely, if there is excess funding, the surplus will be returned to the Company. 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 2004 this additional compensation amounted to £231,000 (2003: £137,000) and £75,000 (2003: £50,000) 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 30 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 on page 31.

Long Term Incentive Plan ("LTIP")

The LTIP was operated for the eighth 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 rules provide for a maximum allocation of 100% of basic salary. The actual 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 performance conditions 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.

For the scheme that matured on 30 June 2003, participants received 64% of the shares provisionally allocated to them. For the scheme that matured on 30 June 2004 no shares will be allocated to participants.

The LTIP has been approved by shareholders.

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 ("the 1994 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 (2003: £1,000,000) from Ricardo plc to the trustee. At 30 June 2004, the trustee of the Ricardo ESOP held 67,000 ordinary shares in Ricardo plc with a market value at 30 June 2004 of 185.0p per share. The shares held attract an annual dividend of 0.01p per share.

The performance criteria attaching to both these schemes 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 during the year under any of these schemes.

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

Directors' share interests

	Ordinary shares		Options over ordinary shares	
	At 30 June 2004	At 1 July 2003	**At 30 June 2004**	At 1 July 2003
R J Westhead	**233,274**	224,184	**145,619**	145,619
A R Goodburn	**47,916**	45,480	**81,048**	81,048
J W Holt	**35,622**	28,471	**50,000**	50,000
S Parker	**5,368**	–	**–**	–
G A Andrews	**34,816**	27,460	**63,239**	66,244
C Hickman	**3,565**	2,068	**119,048**	54,048
M Beresford	**20,000**	–	**–**	–
P T Ward	**10,500**	10,500	**–**	–
J P Percy	**–**	–	**–**	–
J M Harper	**10,000**	–	**–**	–

The middle market price of the Company's ordinary shares on 30 June 2004 was 185.0p and the range in the year was 165.5p to 390.0p with an average price of 241.1p.

At 20 September 2004 the respective holdings of the directors still in office had not changed from those at 30 June 2004.

At 30 June 2004, 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 in addition to the interests shown above.

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. All future appointments to the Board will comply with this requirement.

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 Code on Corporate Governance, which states that notice periods should not exceed one year. However, it takes the view that, as Mr Westhead's retirement date is one year 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

* R J Westhead's service contract expires upon his attaining the age of 62 (on 9 November 2005).

** On 11 December 2003, C R Bates resigned from the Board as a result of the restructuring of the Group's UK Operations and received £187,217 on his leaving the employment of the Company. On 6 September 2004 G A Andrews resigned from the Board.

The contractual termination provision is payment in lieu of notice equal to one year's 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.

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 at 30 June 2004 are:

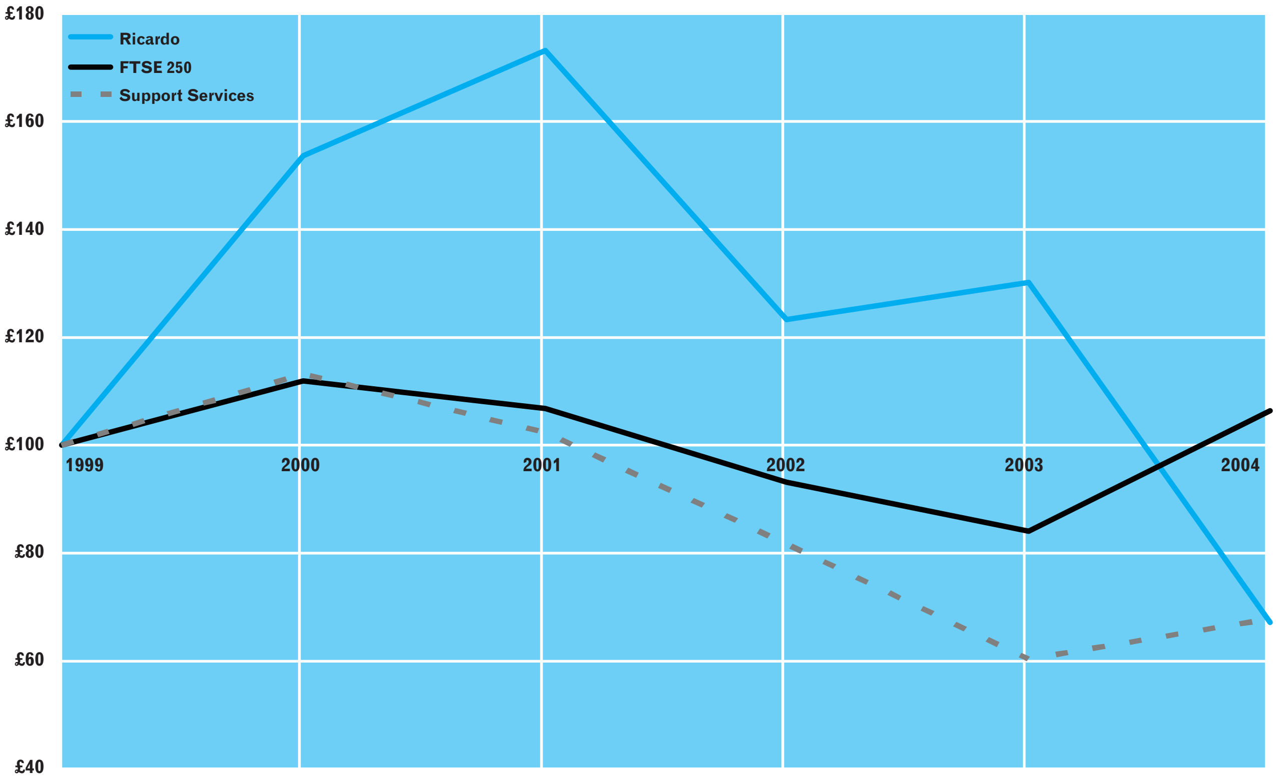
M Beresford	15 months
P T Ward	10 months
J P Percy	24 months
J M Harper	12 months

External appointments

The Board recognises the benefit that Ricardo can obtain if executive directors of Ricardo serve as non-executive directors of other companies. Subject to review in each case, the Remuneration Committee's general policy is that executive directors may accept non-executive directorships with other companies, so long as there is no conflict of interest and their effectiveness is not impaired. Both R J Westhead and A R Goodburn hold non-executive directorships with other companies for which fees of £57,667 and £6,625, respectively, were earned in the year. Directors may retain any such fees.

Performance graph

The graph below shows the Group's 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 an 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.

Tables 1 to 5 are auditable information.

Table 1 Total remuneration

	Basic salary £'000	Other cash payments £'000	Share based awards £'000	Performance related bonus £'000	Termination payment £'000	Benefits in kind[h] £'000	**Total 2004 £'000**	Total 2003 £'000
R J Westhead	302	13	–	–	–	54	**369**	486
A R Goodburn	183	19	–	–	–	1	**203**	279
C R Bates[a]	85	5	–	–	187	15	**292**	193
J W Holt	180	–	–	–	–	6	**186[g]**	200
S Parker[b]	223	38	33	–	–	1	**295**	494
G A Andrews[c]	146	27	–	–	–	3	**176**	93
C Hickman[c]	146	21	–	–	–	30	**197**	109
Sir N Davies[d]	42	1	–	–	–	–	**43**	80
M Beresford[e]	75	–	–	–	–	2	**77**	–
P T Ward	29	–	–	–	–	–	**29**	28
J P Percy	33	5	–	–	–	–	**38**	30
J M Harper[f]	29	–	–	–	–	–	**29**	1
	1,473	129	33	–	187	112	**1,934**	1,993

(a) Resigned 11 December 2003. A termination payment of £187,217 was paid to C R Bates under the terms of his contract.

(b) Appointed 1 August 2002

(c) Appointed 1 January 2003 and resigned 6 September 2004

(d) Retired 31 December 2003

(e) Appointed 1 October 2003

(f) Appointed 24 June 2003

(g) J W Holt was remunerated in US Dollars. For the purpose of this report his emoluments have been translated at US$1.7379/£(2002: US$1.5856/£).

(h) R J Westhead, A R Goodburn, S Parker and C Hickman have and G A Andrews and C R Bates had the benefit of private medical cover. R J Westhead and A R Goodburn have private subscriptions to professional bodies paid by the Company. R J Westhead and J W Holt have the benefit of company cars. Fuel is provided by the Company for R J Westhead. C R Bates also had the benefit of a company car and fuel provided by the Company. Fuel paid for by the Company is provided to A R Goodburn and C Hickman each of whom has purchased his own car for use on Company business. G A Andrews also had fuel paid for by the Company as he, also, had purchased his own car for use on Company business. Additionally, relocation expenses were paid on behalf of C Hickman and a Company flat is provided to R J Westhead. Taxable travel expenses were paid to M Beresford.

FURBS* Benefits

	Increase in total accrued FURBS* lump sum entitlement £'000	Increase in total accrued FURBS* lump sum entitlement (excluding inflation) £'000	**Total accrued FURBS* lump sum entitlement as at 30 June 2004 £'000**	Total accrued FURBS* lump sum entitlement as at 30 June 2003 £'000	Additional FURBS* lump sum entitlement earned in the year £'000	Additional FURBS* lump sum entitlement earned in the year (excluding inflation) £'000
R J Westhead	426	396	**1,450**	1,024	210	175
A R Goodburn	190	178	**588**	398	106	94

* 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.

Following actuarial advice, the basis of the Total FURBS lump sum entitlement calculation was revised to reflect increasing pensioner longevity. The latter two columns of the above table are calculated after this change to show the benefits earned in the year that are attributable to additional Company service and general increases in pensionable salaries.

Table 2 Pension details of the directors

	Additional accrued pension benefits earned in the year £'000	Additional accrued pension benefits earned in the year (excluding inflation) £'000	Accrued pension entitlement £'000	**Transfer value at 30 June 2004 £'000**	Transfer value at 30 June 2003 £'000	Increase in transfer value less directors' contributions £'000	Transfer value of increase in accrued benefits less directors' contributions (excluding inflation) £'000
R J Westhead	4	3	39	**596**	479	93	51
A R Goodburn	4	3	35	**418**	323	81	41
S Parker	3	3	6	**45**	17	20	25
G Andrews	3	2	8	**43**	25	10	14
C Hickman	4	3	23	**159**	113	38	24
C R Bates	5	4	24	**105**	73	28	18

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 2004 amounted to £27,000 (2003: £27,000).

Table 3 Details of the provisional number of shares awarded to directors under the LTIP

	Cycle ending	Award date	At 1 July 2003 Number	Shares provisionally allocated Number	Shares not finally vesting Number	Shares vested Number	**At 30 June 2004 Number**	Value Vested £'000	Vesting date
R J Westhead	2003	1.7.00	10,653	–	(3,835)	6,818	**–**	12	12.11.03
	2004	1.7.01	15,854	–	–	–	**15,854**	–	–
	2005	1.7.02	39,487	–	–	–	**39,487**	–	–
	2006	1.7.03	–	45,125	–	–	**45,125**	–	–
A R Goodburn	2003	1.7.00	6,346	–	(2,285)	4,061	**–**	7	12.11.03
	2004	1.7.01	9,817	–	–	–	**9,817**	–	–
	2005	1.7.02	23,900	–	–	–	**23,900**	–	–
	2006	1.7.03	–	27,344	–	–	**27,344**	–	–
C R Bates	2003	1.7.00	3,808	–	(1,371)	2,437	**–**	4	12.11.03
	2004	1.7.01	7,927	–	(4,142)	3,785*	**–**	7*	31.12.03
	2005	1.7.02	20,090	–	(20,090)	–	**–**	–	–
	2006	1.7.03	–	–	–	–	**–**	–	–
J W Holt	2003	1.7.00	5,704	–	(2,053)	3,651	**–**	7	12.11.03
	2004	1.7.01	11,378	–	–	–	**11,378**	–	–
	2005	1.7.02	26,194	–	–	–	**26,194**	–	–
	2006	1.7.03	–	28,156	–	–	**28,156**	–	–
S Parker	2003	1.7.00	–	–	–	–	**–**	–	–
	2004	1.7.01	–	–	–	–	**–**	–	–
	2005	1.7.02	29,096	–	–	–	**29,096**	–	–
	2006	1.7.03	–	33,246	–	–	**33,246**	–	–
G A Andrews	2003	1.7.00	3,518	–	(1,266)	2,252	**–**	4	12.11.03
	2004	1.7.01	6,829	–	–	–	**6,829**	–	–
	2005	1.7.02	19,051	–	–	–	**19,051**	–	–
	2006	1.7.03	–	21,815	–	–	**21,815**	–	–
C Hickman	2003	1.7.00	3,898	–	(1,403)	2,495	**–**	4	12.11.03
	2004	1.7.01	7,835	–	–	–	**7,835**	–	–
	2005	1.7.02	19,051	–	–	–	**19,051**	–	–
	2006	1.7.03	–	21,815	–	–	**21,815**	–	–
Total of awards vested in 2003						25,499		45	

*The market price of Ricardo plc shares on 31 December 2003, the date of vesting, was £1.93.

The value of the awards vested on 12 November 2003 was based on the market price of Ricardo plc shares on that date of £1.80.

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

Table 4 Details of directors' interests in share options in the Executive Share Option Schemes

The 1994 Executive Share Option Scheme

	At 1 July 2003	Number of options during the year Granted	Exercised	Lapsed	At 30 June 2004	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	–	11.12.03	10.06.04
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	265.0	–	25.02.06	24.02.13
	–	65,000	–	–	65,000	185.0	–	26.06.07	25.06.14

**These options have lapsed under the rules of the scheme.

The 1995 Executive Share Option Scheme

	At 1 July 2003	Granted	Number of options during the year Exercised	Lapsed	At 30 June 2004	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

Table 5 Details of directors' interests in share options in the Savings Related Share Option Scheme

The Ricardo plc 2000 Savings Related Share Option Scheme

	At 1 July 2003	Granted	Number of options during the year Exercised	Lapsed	At 30 June 2004	Exercise price pence	Market price at date of exercise pence	Date from which exercisable	Expiry date
R J Westhead	1,619	–	–	–	1,619	233.4	–	1.12.05	8.05.06
A R Goodburn	4,048	–	–	–	4,048	233.4	–	1.12.05	31.05.06
C R Bates	2,429	–	–	(2,429)*	–	233.4	–	11.12.03	10.06.04
G A Andrews	3,005	–	(3,005)	–	–	114.8	374.0	1.02.03	31.07.03
	3,239	–	–	–	3,239	233.4	–	1.12.05	31.05.06
C Hickman	4,048	–	–	–	4,048	233.4	–	1.12.05	31.05.06

*These options have lapsed under the rules of the scheme.

Gains made by directors on share options

The total theoretical gain on the share options exercised by G A Andrews in the year amounted to £7,789.

The gain made by a director on the exercise of a share option is calculated by reference to the difference between the closing mid market price on the date of exercise and the exercise price of the option, disregarding whether such shares were sold or retained on exercise, and is stated before tax. G A Andrews retained all of his shares on exercise.

On behalf of the Board

P Ward

Chairman of the Remuneration Committee

20 September 2004

Code on Corporate Governance

The Combined Code on Corporate Governance (''the 1998 Code'') has been superseded by the Code on Corporate Governance ("the 2003 Code") which is effective for reporting years beginning on or after 1 November 2003 and which is derived from a review of the role and effectiveness of non-executive directors by Derek Higgs and a review of audit committees by a group led by Sir Robert Smith. The Financial Services Authority has issued the 2003 Code as an appendix to the Listing Rules. After due consideration the Board has adopted the 2003 Code.

Application and compliance with the 1998 and the 2003 Code

The Company has taken steps throughout the year to comply with the 1998 Code except that as regards Provision B1.7 of the 1998 Code (Service Contracts and Compensation), the service contract of the Chief Executive provides for a notice period by the Company in excess of one year. There is no plan to reduce this period as his contract expires on 9 November 2005. The Company has also taken steps to move towards compliance with the 2003 Code.

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 six executive members as at 30 June 2004, thus satisfying the 2003 Code that a smaller company should have at least two independent non-executive directors, (Ricardo having been below the FTSE 350 throughout the year immediately prior to the 12 months ended 30 June 2004.) It met regularly throughout the year with ad hoc meetings being held also. On 1 January 2004 a Strategic Board, which conducts strategic overviews as appropriate, was initiated. This is headed by the Chairman and comprises the three other non-executive and two executive members, R J Westhead and A R Goodburn. It also met regularly throughout the 6 months from 1 January but not in the same months as the Board. All papers relating to the Strategic Board are circulated to the Board members also. The role of the Board and the Strategic Board (collectively "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 has agreed the Schedule of Matters reserved for its decision including ensuring that the necessary financial and human resources are in place to meet its obligations to its shareholders and others. It also 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, their remuneration and the policy relating to non-audit services and from the Nomination Committee regarding Board appointments. The Board agrees the framework for executive directors' remuneration with the Remuneration Committee and determines fees paid to non-executive directors. Board papers are circulated before Board meetings in sufficient time to be meaningful.

The performance of the Board is evaluated by means of a detailed questionnaire which each director completes. The structure of the Board as to the appropriateness of its skill level and cultural mix, the way Board meetings are conducted and administered and the content of those meetings, the effectiveness of the various Committees, whether Corporate Governance issues are handled in a satisfactory manner and whether there is a clear strategy and objectives, are appraised. The results will help the Board to improve the performance of its directors.

A new director, on appointment, is briefed on the activities of the Company. Professional induction training is also given as appropriate. The Chairman briefs non-executive directors on issues arising at Board meetings if required and directors have access to the Chairman at any time. Ongoing training is provided as needed including presentations by the operating units on specific aspects of the business. Each director is appraised through the normal appraisal process and includes the Chief Executive being appraised by the Chairman, the executive Board members by the Chief Executive and the non-executive Board members by the Chairman. Each director has access to the services of the Company Secretary, if required, and each director may take independent professional advice in the furtherance of his duties or in relation to acts being carried out by the Board or the Company, at the expense of the Company. Under the leadership of the senior independent director, the non-executive Board members held a meeting without the Chairman being present to appraise the Chairman's performance.

The non-executive directors are considered by the Board to be totally independent of management and are free to exercise independence of judgement. They have never been employees of the Company nor have they participated in any of the Company's share schemes, pension schemes or bonus arrangements. They receive no other remuneration from the Company other than the directors' fees. Confirmation has been sought and received from each non-executive director that he:

- does not have or has not had within the last three years, a material business relationship with the Company either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company.
- has no close family ties with any of the Company's advisers, directors or senior employees.
- holds no cross-directorships or has significant links with other directors through involvement in other companies or bodies.
- does not represent a significant shareholder.

Confirmation has been sought and received from the Chairman of his independence at the date of his appointment.

The Chairman met during the year with the other non-executives and without the executive directors being present. The non-executive directors met during the year with the Chairman and Chief Executive present to review strategy.

The non-executive Deputy Chairman, J P Percy, has been recognised as being the senior independent director who is available to shareholders if contact through normal channels is inappropriate or has failed to resolve an issue.

The table below shows the number of Board meetings and Audit, Remuneration and Nomination Committee meetings held during the year and the attendance of each director.

	Board meetings	Strategic Board meetings*	Committee meetings		
			Audit	Remuneration	Nomination
Number of meetings in the year	9	2	4	8	4
M Beresford**	7	2	2	6	2
P T Ward	6	2	3	6	4
J P Percy	8	1	4	8	4
J M Harper	9	2	4	8	4
R J Westhead	9	2			3
A R Goodburn	8	2			
J W Holt	8				
S Parker	9				
G A Andrews	8				
C Hickman	8				
C R Bates***	4				
Sir Noel Davies****	5		3	4	2

* From January 2004
** Appointed 1 October 2003
*** Resigned 11 December 2003
**** Retired 31 December 2003

The Audit Committee

The Audit Committee ("the Committee") is established by and is responsible to the Board. It has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Company's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law and the Listing Rules of the Financial Services Authority

- to monitor and review the Company's system of internal control and the effectiveness of the internal audit function and ensure that it is adequately resourced
- to make recommendations to the Board in relation to the appointment of the external auditors and their remuneration, following appointment by the shareholders in general meeting, and to review the scope and planning of the audit and be satisfied with the auditors' independence, objectivity and effectiveness on an ongoing basis
- to implement the policy relating to any non audit services performed by the external auditors

J P Percy, the Chairman of the Committee, is currently Chairman of Kiln plc and Companies House and Chairman of the Audit Committee of The Weir Group plc. He was formerly Chairman of the Accounts Commission for Scotland, President of the Institute of Chartered Accountants of Scotland and Vice Chairman of the Auditing Practices Board and therefore has recent and relevant experience. The other members of the Committee, M Beresford, P T Ward and J M Harper, all of whom are non-executive directors, have gained wide experience in regulatory and risk issues.

Appointments to the Committee are made by the Board on the recommendation of the Nomination Committee which takes into account the particular skills and attributes required to fulfill particular roles. The members of the Committee are remunerated at a level which takes account of their responsibilities.

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held normally three times a year to coincide with the review of the scope of the external and internal audit and observations arising from their work in relation to internal control and also in September and February each year to review the financial statements. The external auditors have met with the Audit Committee during the year on two occasions, one of which was without management being present. It is the Audit Committee's intention to invite the auditors to all future meetings. At its meeting in September it carries out a full review of the year end financial statements and of the audit, using as a basis the Report to the Audit Committee prepared by the external auditors and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations. A similar but less detailed investigation is carried out in February when the Interim Statement is reviewed.

The Committee receives reports from management and internal audit on a regular basis on the effectiveness of the system of internal controls. It also receives from the external auditors their observations arising from testing carried out during the course of the audit. The statement on internal controls and the management of risk, which is included in the annual report, is approved by the Committee.

The external auditors are required to give the Committee information about policies and processes for maintaining their independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditors and the Company to ensure that they do not compromise the auditors' judgement or independence particularly with the provision of non audit services where a policy relating to these has been agreed by the Board. Essentially the external auditors would be excluded from carrying out non audit services if they are put in the position of auditing their own work, making management decisions for the Company, if a mutual interest between the Company and the auditors is created or if the auditors take on the role of an advocate for the Company. If the external auditors carry out non audit services and the cost of these services is estimated to exceed £20,000, prior approval by the Committee is required.

During the year a review of the internal audit function was carried out. The audit plan for the year was reviewed as was the staffing, which consists of suitably qualified staff from the Company, to carry out the audits. The resources were considered adequate. The internal audit reports were reviewed as was management's response to the findings and recommendations.

The Committee considers that the internal audit function is an effective tool in the overall context of the Company's risk management system. The Committee meets annually with internal audit without the management being present.

The Remuneration Committee

The Remuneration Committee, which is chaired by P T Ward, 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 the remuneration and other benefits of executive directors and managing directors of subsidiary companies of the group. The Committee is cognisant of the remuneration and other benefits of subsidiary board members.

The Nomination Committee

The Nomination Committee, having evaluated the balance of skills, knowledge and experience on the Board, makes recommendations to the Board of executive and non-executive appointments. Before such recommendations are made, descriptions of the roles and skills required in fulfilling these roles are prepared for particular appointments. To attract suitable candidates, appropriate external advice is taken and interviews conducted by at least two members of the Committee to ensure a balanced view. When an appointment of a non-executive director is made, a formal letter is sent setting out clearly what is expected regarding time commitment, committee membership and involvement outside Board meetings. When a Chairman needs to be appointed, the Nomination Committee is chaired by the senior independent director. A job specification is prepared together with an assessment of the time commitment expected. The chosen candidate is required to disclose to the Board any other significant commitments before the appointment can be ratified. The current Chairman, M Beresford, was appointed on 1 October 2003 using the above appointment process.

The Committee has written terms of reference, and comprises M Beresford, J P Percy, P T Ward, J M Harper and R J Westhead and meets at least twice a year and at other times as appropriate. In the year ended 30 June 2004, the Committee met four times. The Chairman of the Committee, who would always be a non-executive director, is decided by the Board. The leadership needs of the Company are constantly monitored as are the size and structure of the Board with consideration being given to succession planning and to the training needs of the executive and non-executive members. Non-executive directors are subject to performance evaluation on re-election when consideration is given to the effectiveness of their performance taking into account the number of Board and committee meetings attended and their contribution to those meetings. Commitment to any specific duty performed is also evaluated. Additionally non-executive directors are subject to rigorous review when they are continuing to serve on the Board for any term beyond six years. The Chairman has confirmed that both non-executive directors, J P Percy and P T Ward, who are subject to re-election at the Annual General Meeting, have had their performances evaluated and that both continue to be effective. Additionally P T Ward, who has served on the Board for more than six years, has been the subject of rigorous review.

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

The Chief Executive and the Finance Director regularly meet with institutional shareholders to foster a mutual understanding of objectives. Additionally a letter is sent annually from the Chairman to major shareholders inviting their views on corporate governance issues.

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 (for, against and vote withheld) 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.

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 71 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.

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 issued 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, statement of directors' responsibilities and the five year summary.

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 the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 2004 and of the loss 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
20 September 2004

Consolidated Profit and Loss Account for the year ended 30 June 2004

	Notes	Before goodwill amortisation and exceptional costs	Goodwill amortisation and exceptional costs	2004 £'000 Total	Before goodwill amortisation	Goodwill amortisation	2003 £'000 Total (restated)
Turnover	2	**146,242**	**–**	**146,242**	136,608	–	136,608
Operating (loss)/profit	3	**2,600**	**(4,558)**	**(1,958)**	15,554	(281)	15,273
(Loss)/profit on ordinary activities before interest		**2,600**	**(4,558)**	**(1,958)**	15,554	(281)	15,273
Net interest	4	**(800)**	**–**	**(800)**	565	–	565
(Loss)/profit on ordinary activities before taxation	5	**1,800**	**(4,558)**	**(2,758)**	16,119	(281)	15,838
Tax on (loss)/profit on ordinary activities	7	**515**	**1,114**	**1,629**	(3,460)	–	(3,460)
(Loss)/profit on ordinary activities after taxation		**2,315**	**(3,444)**	**(1,129)**	12,659	(281)	12,378
Minority interest	27			**(148)**			(194)
(Loss)/profit for the financial year				**(1,277)**			12,184
Non-equity preference dividends	8			**(6)**			–
(Loss)/profit attributable to ordinary shareholders				**(1,283)**			12,184
Equity ordinary dividends	8			**(4,478)**			(4,483)
Retained (loss)/profit transferred (from)/to reserves	19			**(5,761)**			7,701
Earnings per ordinary share							
– basic	9			**(2.6)p**			24.8p
– diluted	9			**(2.6)p**			24.6p
Earnings per ordinary share before goodwill amortisation and exceptional redundancy costs							
– basic	9			**4.3p**			25.4p
– diluted	9			**4.3p**			25.1p

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

All of the above activities are continuing.

		Group		Company	
	Notes	**2004** **£'000**	2003 £'000 (restated)	**2004** **£'000**	2003 £'000 (restated)
Fixed assets					
Intangible assets	10	**16,161**	26,339	**–**	–
Tangible assets	11	**50,944**	50,452	**10,463**	6,332
Investments	12	**–**	–	**20,333**	22,122
		67,105	76,791	**30,796**	28,454
Current assets					
Stocks	13	**6,285**	7,173	**–**	–
Debtors	14	**36,525**	52,769	**164,726**	180,506
Cash deposit		**–**	340	**–**	–
Cash at bank and in hand		**11,119**	6,052	**13,227**	18,105
		53,929	66,334	**177,953**	198,611
Creditors – amounts falling due within one year	15	**(56,247)**	(58,567)	**(23,255)**	(37,059)
Net current (liabilities)/assets		**(2,318)**	7,767	**154,698**	161,552
Total assets less current liabilities		**64,787**	84,558	**185,494**	190,006
Creditors – amounts falling due after more than one year	16	**(4,788)**	(15,832)	**–**	(939)
Provisions for liabilities and charges	17	**(3,843)**	(5,276)	**(392)**	(130)
Net assets		**56,156**	63,450	**185,102**	188,937
Capital and reserves					
Called up share capital	18	**12,474**	12,469	**12,474**	12,469
Share premium account	19	**12,076**	12,054	**12,076**	12,054
Capital redemption reserve	19	**40**	40	**40**	40
Merger reserve	19	**967**	967	**–**	–
Long term incentive plan reserve	19	**–**	204	**–**	204
Profit and loss account	19	**30,106**	37,126	**160,512**	164,170
Shareholders' funds		**55,663**	62,860	**185,102**	188,937
Equity and non-equity minority interests	27	**493**	590	**–**	–
Capital employed		**56,156**	63,450	**185,102**	188,937

The financial statements on pages 42 to 71 were approved by the Board of Directors on 20 September 2004 and signed on its behalf by:

Marcus Beresford – *Chairman*

Rodney Westhead – *Chief Executive*

Statement of Group Total Recognised Gains and Losses for the year ended 30 June 2004

	Notes	2004 £'000	2003 £'000 (restated)
(Loss)/profit attributable to ordinary shareholders		**(1,283)**	12,184
Foreign exchange adjustments	19	**(1,259)**	(997)
Total recognised (losses) and gains relating to the year		**(2,542)**	11,187
Prior year adjustments		**(1,439)**	–
Total (losses) and gains recognised since last annual report		**(3,981)**	–

Reconciliation of Movements in Shareholders' Funds for the year ended 30 June 2004

	2004 £'000	2003 £'000 (restated)
(Loss)/profit attributable to ordinary shareholders	**(1,283)**	12,184
Dividends	**(4,478)**	(4,483)
	(5,761)	7,701
Currency translation differences on foreign currency net investments	**(1,259)**	(997)
Issue of ordinary shares on the acquisition of Tarragon Embedded Technology	**–**	1,165
Proceeds on issue of new shares under an employee share scheme	**27**	929
Long term incentive plan reserve	**(204)**	(390)
(Reduction from)/addition to total shareholders' funds	**(7,197)**	8,408
Opening total shareholders' funds (originally £64,348,000 before prior year adjustment of £32,000 to the prior year profit and of £1,456,000 to the reserves brought forward – note 19)	**62,860**	54,452
Closing shareholders' funds	**55,663**	62,860

	Notes	2004 £'000	2004 £'000	2003 £'000	2003 £'000 (restated)
Net cash inflow from operating activities	20		**12,037**		19,490
Returns on investments and servicing of finance					
Interest received		**919**		1,260	
Interest paid		**(1,662)**		(636)	
Interest element of finance rental payments		**–**		(62)	
Dividend paid to minority shareholder		**(207)**		–	
Net cash (outflow)/inflow from returns on investment and servicing of finance			**(950)**		562
Taxation			**(3,531)**		(3,921)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(11,091)**		(8,260)	
Sale of tangible fixed assets		**75**		64	
			(11,016)		(8,196)
Acquisitions and disposals					
Purchase of subsidiary undertakings		**–**		(18,862)	
Acquisition expenses		**–**		(459)	
Net cash acquired with subsidiary undertakings		**–**		123	
			–		(19,198)
Equity and non equity dividends paid			**(4,482)**		(4,275)
Management of liquid resources					
Loan note repaid		**(340)**		–	
			(340)		–
Cash flow before use of financing			**(8,282)**		(15,538)
Financing					
Issue of ordinary share capital		**27**		929	
Capital elements of finance lease rental payments		**–**		(940)	
Loans repaid		**(585)**		(6,462)	
Shares purchased for LTIP		**–**		(381)	
			(558)		(6,854)
Decrease in cash	22		**(8,840)**		(22,392)

1 Accounting policies

These financial statements are prepared under the historical cost convention, the accounting policies set out below are in accordance with applicable United Kingdom accounting standards. A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous accounting policies on the adoption of new standards in the year.

(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) Changes in accounting policies

The Group has adopted UITF38 Accounting for ESOP Trusts and Application note G of FRS5 ''Reporting the Substance of Transactions'' in the year. The adoption of these represents changes in accounting policies and therefore the comparative figures have been restated accordingly. The effect of this change is shown in note 19.

(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 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 when the right to consideration has been established 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 includes 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. Software income, with the exception of outright purchase of the licence, is recognised over the period of the lease or maintenance agreement. Maintenance, training and support service revenues are recognised over the period of the service provided. Related costs are charged to the profit and loss account as incurred.

(d) Research and development

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

(e) Leases

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

Provision is made for the expected net cost to the Group of vacant freehold property.

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.

(f) 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.

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.

1 Accounting policies

(g) 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.

(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 structural Group funding, are dealt with through reserves.

(i) Investments

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

(j) 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.

(k) 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 deducted;
- 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.

1 Accounting policies

(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. In accordance with UITF38 the shares held by these trusts have been treated as a deduction from shareholders' funds.

(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 26 of the financial statements.

(n) 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.

2 Segmental reporting

The directors consider that the Group operates in one business segment, serving the global automotive market.

The areas of operation continue to be the provision of engineering and technological services and strategic consulting to industry, commerce and other agencies.

Turnover by destination

	2004	2003
	£'000	*£'000*
		(restated)
Europe	**94,284**	87,572
North America	**40,830**	41,775
Pacific basin	**5,529**	5,622
Rest of the world	**5,599**	1,639
	146,242	136,608

Turnover by origin, operating profit and net operating assets

The Group operates in 3 main geographical areas.

In addition, our strategic consulting business ("RSC") operates on a global basis. Its figures have therefore been shown separately.

2004	UK	North America	Germany	RSC	Rest of the world	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Turnover by origin	**89,344**	**31,560**	**22,954**	**2,351**	**33**	**146,242**
Operating profit/(loss) before goodwill amortisation	**875**	**1,160**	**1,980**	**(1,222)**	**(193)**	**2,600**
Operating profit/(loss) after goodwill amortisation	**560**	**1,149**	**1,321**	**(1,222)**	**(193)**	**1,615**
Net operating assets	**42,775**	**9,564**	**17,557**	**599**	**(239)**	**70,256**
Group borrowings falling due within one year						**(5,469)**
Group borrowings falling due after more than one year						**(4,788)**
Provisions for liabilities and charges						**(3,843)**
Net assets						**56,156**

2003	UK	North America	Germany	RSC	Rest of the world	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Turnover by origin	101,626	33,430	519	1,033	–	136,608
Operating profit/(loss) before goodwill amortisation	14,026	1,902	(139)	(225)	(10)	15,554
Operating profit/(loss) after goodwill amortisation	13,758	1,889	(139)	(225)	(10)	15,273
Net operating assets	55,804	10,467	13,490	442	(25)	80,178
Group cash balance						4,380
Group borrowings falling due within one year						(5,572)
Group borrowings falling due after more than one year						(10,260)
Provisions for liabilities and charges						(5,276)
Net assets (restated)						63,450

3 Operating (loss)/profit

	Before goodwill amortisation and exceptional costs	**Goodwill amortisation and exceptional costs**	**2004 *£'000* Total**	Before goodwill amortisation costs	Goodwill amortisation costs	2003 *£'000* Total (restated)
Turnover	**146,242**	**–**	**146,242**	136,608	–	136,608
Cost of sales	**(106,722)**	**–**	**(106,722)**	(90,127)	–	(90,127)
Gross profit	**39,520**	**–**	**39,520**	46,481	–	46,481
Administrative expenses	**(36,920)**	**(4,558)**	**(41,478)**	(30,927)	(281)	(31,208)
Operating (loss)/profit	**2,600**	**(4,558)**	**(1,958)**	15,554	(281)	15,273

Goodwill amortisation and exceptional costs comprise goodwill amortisation of £985,000 (2003: £281,000) and redundancy cost of £3,573,000 (2003: Nil).

4 Net interest

	2004 *£'000*	2003 *£'000*
Interest receivable	**887**	1,171
Interest payable on bank loans and overdrafts	**(1,687)**	(544)
Interest payable on finance leases	**–**	(62)
	(800)	565

5 (Loss)/profit on ordinary activities before taxation

	2004 £'000	2003 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Research and development	**4,421**	5,120
Operating leases: hire of plant and machinery	**878**	495
other	**2,506**	2,385
Amortisation of intangible fixed assets	**985**	281
Depreciation	**9,518**	9,495
Gain on sale of tangible fixed assets	**(7)**	(15)
Exceptional costs – redundancy	**3,573**	–
LTIP credit	**204**	9

	2004 £'000	2003 £'000
Total auditors' remuneration was as follows:		
Audit services		
Statutory audit fees for the group	**243**	220
Accounting advice	**–**	14
Assistance with preparation of subsidiary undertakings' statutory accounts	**3**	12
	246	246
Audit fees of the Company	**58**	56
Fees for non audit services, paid or payable, to the auditors in the UK:		
Further assurance services		
Transaction support relating to acquisitions	**–**	231
Tax services		
Advisory services	**–**	145
Compliance services	**–**	3
Other services	**39**	43
	39	422
Fees paid or payable to the auditors, outside of the UK, were:		
Audit services	**70**	46
Transaction support relating to acquisitions	**–**	208
	70	254
Total fees, paid or payable, to the auditors for all services provided	**285**	876

6 Employees

	2004 £'000	2003 £'000
Staff costs:		
Wages and salaries	**67,157**	56,953
Social security costs	**8,209**	6,643
Other pension costs (note 25)	**4,058**	3,942
	79,424	67,538

	2004 Number	2003 Number
Average number of employees (including executive directors) during the year:		
Management, administration and sales	**234**	206
Production and engineering staff	**1,504**	1,372
	1,738	1,578

7 Taxation on (loss)/profit on ordinary activities

	2004	2003
	£'000	*£'000*
Analysis of (credit)/charge in the year		
United Kingdom		
Corporation tax at 30% (2003: 30%)	**(15)**	4,746
Adjustments in respect of prior periods	**(182)**	(1,111)
Double tax relief	**(8)**	(191)
	(205)	3,444
Foreign tax		
Corporation taxes	**242**	447
Total current tax	**37**	3,891
Deferred tax		
Origination and reversal of timing differences	**(1,097)**	(433)
Adjustment in respect of prior periods	**(569)**	2
	(1,666)	(431)
Representing:		
United Kingdom	**(1,097)**	(433)
Adjustment in respect of prior periods	**(569)**	2
Total deferred tax	**(1,666)**	(431)
Tax on (loss)/profit on ordinary activities	**(1,629)**	3,460

The tax for the year is lower (2003: lower) than the standard rate of corporation tax in the UK (30%). The differences are set out below:

	2004	**2004**	2003	2003
	£'000	**%**	*£'000*	%
(Loss)/profit on ordinary activities before tax	**(2,758)**		15,870	
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)		**(30)**		30
Effects of:				
Depreciation in excess of capital allowances		**28**		3
Other short term timing differences		**1**		–
Tax losses		**10**		(1)
Expenses not deductible for tax purposes		**1**		2
Government tax incentives		**(20)**		(2)
QUEST contributions allowable		**–**		(1)
Adjustments to corporation tax in respect of prior period		**(7)**		(7)
Irrecoverable overseas tax		**8**		–
Difference in foreign tax rates		**–**		1
Goodwill amortisation		**9**		–
	37		3,891	

Factors that may affect future tax charges

The Group anticipates being able to maintain a lower effective rate of tax on its worldwide profits than the current UK rate of 30% as a result of tax incentives.

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

	2004 £'000	2003 £'000
Non-equity preference dividends 4p per share (2003 – NIL)	**6**	–
Equity ordinary dividends:		
Interim 2.7p per share (2003 – 2.7p)	**1,339**	1,346
Proposed final of 6.3p per share (2003 – 6.3p)	**3,139**	3,137
	4,478	4,483

The preference shares have been issued by two subsidiaries of the Group.

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 the purposes of the calculation.

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 2004, the performance criteria for the vesting of awards under the plans maturing on 30 June 2005 and 30 June 2006 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.

The calculations of basic earnings per ordinary share and diluted earnings per ordinary share are in accordance with FRS14.

	2004			2003 (restated)		
	Earnings £'000	**Number of shares '000**	**Per share amount pence**	Earnings £'000	Number of shares '000	Per share amount pence
Basic EPS						
(Loss)/Profit attributable to ordinary shareholders	**(1,283)**	**49,770**	**(2.6)**	12,184	49,059	24.8
Effect of dilutive securities:						
Options	**–**	*		–	438	
LTIP	**–**	*		–	118	
Diluted EPS						
Adjusted earnings	**(1,283)**	**49,770**	**(2.6)**	12,184	49,615	24.6

Supplementary earnings per share to exclude goodwill amortisation and exceptional redundancy costs ("goodwill and redundancy"):

	2004			2003 (restated)		
	Earnings £'000	**Number of shares '000**	**Per share amount pence**	Earnings £'000	Number of shares '000	Per share amount pence
Basic EPS	**(1,283)**	**49,770**	**(2.6)**	12,184	49,059	24.8
Effect of goodwill and redundancy	**3,444**			281		
Basic EPS excluding goodwill amortisation	**2,161**	**49,770**	**4.3**	12,465	49,059	25.4
Diluted EPS	**(1,283)**	**49,770**	**(2.6)**	12,184	49,615	24.6
Effect of goodwill and redundancy	**3,444**	**–**		281	–	
Effect of dilutive securities:						
Options	**–**	**271**		–	–	
Diluted EPS excluding goodwill and redundancy	**2,161**	**50,041**	**4.3**	12,465	49,615	25.1

* No dilution due to loss in the year.

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:

	2004	2003
Weighted average number:	***'000***	*'000*
Ordinary shares in issue	**49,889**	49,188
Shares held by Employee Share Ownership Trust	**(67)**	(67)
Shares held by Long Term Incentive Plan Trustee	**(52)**	(62)
	49,770	49,059

10 Intangible fixed assets

	Goodwill Total *£'000*
Group	
Cost	
At 1 July 2003	26,644
PROTOtechnik – IFT – reduction in goodwill	(6,920)
Ricardo Tarragon – reduction in goodwill	(1,789)
At 1 July 2003	17,935
Foreign exchange adjustment	(483)
At 30 June 2004	**17,452**
Aggregate amortisation	
At 1 July 2003	305
Charge for year	985
Foreign exchange adjustment	1
At 30 June 2004	**1,291**
Net book amount 2004	**16,161**
Net book amount 2003	26,339

The reasons for the reduction in the PROTOtechnik – IFT and Ricardo Tarragon goodwill on acquisition are set out in note 23.

11 Tangible fixed assets

	Land and Buildings Freehold £'000	Land and Buildings Short Leasehold £'000	Plant & Machinery £'000	Fixtures, Fittings & Equipment £'000	**Total £'000**
GROUP					
Cost:					
At 1 July 2003	10,460	2,306	74,046	21,564	108,376
Reclassifications	–	18	33	(51)	–
Additions	227	4,433	4,789	1,496	10,945
Disposals	–	–	(6,645)	(2,165)	(8,810)
Foreign exchange adjustment	(125)	(67)	(1,357)	(390)	(1,939)
At 30 June 2004	**10,562**	**6,690**	**70,866**	**20,454**	**108,572**
Depreciation:					
At 1 July 2003	1,064	535	40,566	15,759	57,924
Reclassifications	–	(18)	138	(120)	–
Depreciation for the year	184	158	6,563	2,613	9,518
Disposals	–	–	(6,627)	(2,116)	(8,743)
Foreign exchange adjustment	(3)	(25)	(748)	(295)	(1,071)
At 30 June 2004	**1,245**	**650**	**39,892**	**15,841**	**57,628**
Net book amount 2004	**9,317**	**6,040**	**30,974**	**4,613**	**50,944**
Net book amount 2003	9,396	1,771	33,480	5,805	50,452

Included in the net book value of plant and machinery of £30,974,000 (2003: £33,480,000) are assets under the course of construction with net book values of £3,787,000 (2003: £815,000) which have not been depreciated in the year. Additionally in 2003, there were assets under the course of construction included in land and buildings – short leasehold and fixtures and fittings of £372,000 and £406,000 respectively.

	Land and Buildings Freehold £'000	Land and Buildings Short Leasehold £'000	Fixtures, Fittings & Equipment £'000	**Total £'000**
COMPANY				
Cost:				
At 1 July 2003	5,615	1,460	519	**7,594**
Additions	–	4,343	62	**4,405**
Disposals	–	–	(63)	**(63)**
Inter group transfer	–	–	(114)	**(114)**
At 30 June 2004	**5,615**	**5,803**	**404**	**11,822**
Depreciation:				
At 1 July 2003	936	263	63	**1,262**
Depreciation for the year	12	91	17	**120**
Disposals	–	–	(23)	**(23)**
At 30 June 2004	**948**	**354**	**57**	**1,359**
Net book amount 2004	**4,667**	**5,449**	**347**	**10,463**
Net book amount 2003	4,679	1,197	456	6,332

11 Tangible fixed assets

The Company had no assets under the course of construction at the year end. However in 2003, there were assets under the course of construction included in land and buildings – short leasehold and fixtures and fittings of £372,000 and £406,000 respectively which had not been depreciated in that year.

12 Investments

	Group			Company		
	Own Shares	Unlisted Trade Investments	**Total**	Shares in Subsidiaries	Unlisted Trade Investments	**Total**
	£'000	*£'000*	***£'000***	*£'000*	*£'000*	***£'000***
Cost at 1 July 2003 as previously reported	146	232	**378**	30,244	232	**30,476**
Prior year adjustment	(146)	–	**(146)**	2,389	–	**2,389**
Cost at 1 July 2003 as restated	–	232	**232**	32,633	232	**32,865**
Adjustment to the acquisition cost of Tarragon Embedded Technology	–	–	**–**	(1,789)	–	**(1,789)**
Cost at 30 June 2004	–	232	**232**	30,844	232	**31,076**
Provisions						
Provisions at 1 July 2003 as previously reported	47	232	**279**	10,511	232	**10,743**
Prior year adjustment (note 19)	(47)	–	**(47)**	–	–	**–**
Provisions at 30 June 2003 as restated and 30 June 2004	–	232	**232**	10,511	232	**10,743**
Net book amount 2004	–	–	**–**	20,333	–	**20,333**
Net book amount 2003	–	–	–	22,122	–	**22,122**

Ricardo has adopted UITF 38 issued by the Accounting Standards Board in December 2003. This reflects a change in accounting policy. As a result the prior period's balance sheet has been restated with the Company's own shares held in an ESOP trust totalling £99,000 being deducted from the profit and loss reserve as at 30 June 2003 rather than being shown as an asset on the balance sheet.

The prior year adjustment in the Company has arisen as the original cost of the acquisition of Tarragon Embedded Technology Limited and the deferred consideration were not reflected in the Company balance sheet.

The carrying value of the unlisted trade investment of the Group and the Company, which is a 24.19% interest in the ordinary share capital of SRH Systems Limited, a company registered in England and Wales, has been reviewed by the directors and they have considered it appropriate to maintain the impairment provision at 30 June 2004 due to the aggregate deficit on share capital and reserves of £833,000 and the loss for that year of £513,000, both figures based on the management accounts.

13 Stocks

	Group	
	2004	2003
	£'000	*£'000*
Raw materials and consumables	**2,488**	2,363
Work in progress	**3,797**	4,810
	6,285	7,173

14 Debtors

Amounts falling due within one year

	Group		Company	
	2004	2003 (restated)	**2004**	2003 (restated)
	£'000	£'000	**£'000**	£'000
Trade debtors	**18,310**	26,613	**2**	162
Amounts recoverable on contracts	**11,272**	18,564	**–**	–
Amounts owed by Group undertakings	**–**	–	**163,167**	179,016
Prepayments	**3,592**	2,969	**1,399**	970
Corporation tax	**–**	–	**53**	–
Overseas taxes	**2,468**	2,559	**–**	–
Other debtors	**883**	2,064	**105**	358
	36,525	52,769	**164,726**	180,506

15 Creditors – amounts falling due within one year

	Group		Company	
	2004	2003 (restated)	**2004**	2003
	£'000	£'000	**£'000**	£'000
Loan notes	**–**	340	**–**	–
Bank loans and overdrafts	**16,588**	1,672	**5,139**	16,996
Payments received in advance	**9,569**	17,487	**–**	–
Trade creditors	**8,501**	8,196	**350**	153
Amounts owed to Group undertakings	**–**	–	**12,079**	12,580
Other creditors	**2,192**	2,553	**1,457**	1,267
UK corporation tax	**1,883**	3,983	**–**	682
Overseas taxes	**1,597**	2,977	**–**	–
Other taxes and social security	**2,176**	1,697	**131**	73
Dividends	**3,139**	3,137	**3,139**	3,137
Accruals and deferred income	**10,002**	14,222	**360**	721
Deferred consideration	**600**	2,303	**600**	1,450
	56,247	58,567	**23,255**	37,059

The bank loans and overdrafts of £16,588 include loans at a fixed rate of 2.86%, of £15,430 (which are denominated in Euros) which were floating rate loans in the previous year.

The interest on the guaranteed floating rate unsecured loan notes 2004 was payable at the rate of 1⅛% below Lloyds TSB Bank plc base rate. The loan notes which were redeemable at the option of the holder, were redeemed during the year. Payment was being guaranteed by Lloyds TSB Bank plc and the Group had made an equivalent deposit with the bank. The deposit was excluded from cash in the cash flow statement.

16 Creditors – amounts falling due after more than one year

	Group		Company	
	2004	2003	**2004**	2003 (restated)
	£'000	*£'000*	***£'000***	*£'000*
Bank loans	**4,788**	5,572	**–**	–
Deferred consideration	**–**	10,260	**–**	939
	4,788	15,832	**–**	939
Maturity of debt:				
Repayable on demand or within one year	**16,588**	1,672	**5,139**	16,996
Between one and two years	**2,084**	443	**–**	–
Between two and five years	**923**	703	**–**	–
In five years or more	**1,781**	4,426	**–**	–
	21,376	7,244	**5,139**	16,996

The interest rates on the outstanding loans, including loans of £3,491,000 at a fixed rate, are denominated in Euros and vary from 2.05% to 6.85% and for floating rate loans which are denominated in Swiss Francs, the interest rates vary from 2.77% and 0.8% above LIBOR.

17 Provisions for liabilities and charges

	Vacant leasehold	Deferred tax	**Total**
	£'000	*£'000*	***£'000***
Group:			
At 1 July 2003	49	5,227	**5,276**
Charged/(credited) to profit and loss account	233	(1,666)	**(1,433)**
At 30 June 2004	282	3,561	**3,843**
Company:			
At 1 July 2003	49	81	**130**
Charged to profit and loss account	233	29	**262**
At 30 June 2004	282	110	**392**

The vacant leasehold provision reflects net rental shortfall in vacant property and is expected to be utilised over the next two years.

Deferred taxation comprises	**2004 Provided**	2003 Provided
	£'000	*£'000*
Group:		
Capital allowances in excess of depreciation	**5,064**	6,152
Tax losses carried forward	**(1,497)**	(990)
Other timing differences	**(6)**	65
	3,561	5,227
Company:		
Depreciation in excess of capital allowances	**39**	77
Other timing differences	**71**	4
	110	81

18 Called up share capital

	Group and Company	
	2004	2003
	£'000	*£'000*
Authorised		
59,760,000 ordinary shares of 25p each	**14,940**	14,940

	2004	2003
	£'000	*£'000*
Allotted, called up and fully paid		
At 1 July 2003 – 49,875,197 shares	**12,469**	12,247
Allotted under share option schemes – 23,079 shares (2003: 460,280 shares)	**5**	115
Allotted to the vendors of Tarragon Embedded Technology Limited	**–**	107
At 30 June 2004 – 49,898,276 shares	**12,474**	12,469

During the year 25,499 shares were allotted to directors under the Group's LTIP out of purchased shares. In 2003, 29,385 shares were allotted to directors with a nominal value of £7,346.

The net consideration received for shares allotted under the share option schemes during the year ended 30 June 2004 was £27,407 (2003: £929,210).

Potential issues of shares

The Company has two Inland Revenue approved employee share option schemes under which options to subscribe for shares may be granted. During the year ended 30 June 2004 options over 110,000 shares were granted under the 1994 executive share option scheme with an exercise price of 185p exercisable until 25 June 2014. No options were granted under the Ricardo plc 2000 Savings Related Share Option Scheme. Options over 23,079 shares were exercised and 262,017 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	**2004 Numbers**	2003 Numbers
1994	138.0-140.0	1997-2004	**–**	4,000
1996	114.0	1999-2006	**179,000**	181,000
1997	114.8	2001-2005	**94,432**	120,706
2000	416.0	2004-2008	**78,490**	114,123
2001	381.0	2004-2011	**50,000**	100,000
2002	233.4	2005-2010	**891,102**	1,058,291
2003	265.0	2006-2013	**100,000**	100,000
2004	185.0	2007-2014	**110,000**	–
			1,503,024	1,678,120

In addition, at 30 June 2004, the ESOP trustee held 67,000 shares (2003: 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. The market value of the shares held by the ESOP trustee is £124,000.

18 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 679,596 ordinary shares by 30 June 2006.

19 Reserves

Group	Share premium account *£'000*	Capital redemption reserve *£'000*	Merger reserve *£'000*	LTIP reserve *£'000*	Profit and loss account *£'000*
At 1 July 2003 as previously reported	12,054	40	967	204	38,614
Prior year adjustment (see analysis below)	–	–	–	–	(1,488)
At 1 July 2003 as restated	12,054	40	967	204	37,126
Exchange rate movements	–	–	–	–	(1,259)
Arising on shares issued	22	–	–	–	–
Long term incentive plan credit	–	–	–	(204)	–
Loss for year	–	–	–	–	(5,761)
At 30 June 2004	**12,076**	**40**	**967**	**–**	**30,106**

Prior year adjustment

The change in accounting policy arising from the implementation of Amendment to FRS 5 'Reporting the substance of transactions': 'Revenue recognition' ('Application Note G') has resulted in the figures for the 2003 figures being restated.

Creditors falling due within one year have increased by £1,389,000, due to the deferral of all software income, with the exception of outright sales of the licence, to recognise revenue over the period of the lease or maintenance agreement. In previous years, revenue derived from the sale or lease of software licences was recognised when the contract had been signed. The effect on reserves is shown below.

The adoption of UITF 38, the details of which are shown in note 12, also has an effect on reserves as a result of a reversal of a provision previously made against the carrying value of the fixed asset investment in prior years and which is shown below.

Analysis of prior year adjustment

	Total
FRS 5	*£'000*
Adjustment to opening reserves at 1 July 2002	(1,357)
Adjustment to profit and loss for the year ended 30 June 2003	(32)
UITF 38	
Adjustment to opening reserves at 1 July 2002	(99)
Prior year adjustment	(1,488)

The cumulative value of goodwill at 30 June 2004 resulting from acquisitions, which has been written off to reserves is £12,122,000 (2003 – £12,122,000).

Company	Share premium account £'000	Capital redemption reserve £'000	LTIP reserve £'000	Profit and loss account £'000
At 1 July 2003 as previously restated	12,054	40	204	164,269
Prior year adjustment	–	–	–	(99)
At 1 July 2003 as restated	12,054	40	204	164,170
Arising on shares issued	22	–	–	–
Long term incentive plan credit	–	–	(204)	–
Loss for year	–	–	–	(3,658)
At 30 June 2004	**12,076**	**40**	**–**	**160,512**

Of the profit and loss account reserves at 30 June 2004 £17,071,000 is available for distribution (30 June 2003 (restated) – £21,036,000).

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 £514,000 (2003 – £160,372,000).

20 Net cash inflow from operating activities

	2004 ***£'000***	2003 *£'000* (restated)
Operating (loss)/profit	**(1,958)**	15,273
Depreciation charges	**9,518**	9,495
Goodwill amortisation	**985**	281
Profit on sale of tangible fixed assets	**(7)**	(15)
Long term incentive plan charge	**(204)**	(9)
Increase in stock	**(1,632)**	(257)
Decrease in debtors	**15,642**	2,228
Decrease in creditors	**(10,307)**	(7,506)
Net cash inflow from operating activities	**12,037**	19,490

21 Reconciliation of net cash flow to movement in net debt

	2004 ***£'000***	2003 *£'000*
Decrease in cash	**(8,840)**	(22,392)
Movement in debt	**691**	6,462
Movement in finance leases	**–**	940
Change in net debt from cash flows	**(8,149)**	(14,990)
Loans and finance leases acquired with subsidiaries	**–**	(6,210)
Translation difference	**(916)**	70
Movement in net debt in year	**(9,065)**	(21,130)
Net (debt)/funds at 1 July	**(1,192)**	19,938
Net debt at 30 June	**(10,257)**	(1,192)

22 Analysis of net debt

	At 1 July 2003 £'000	Cash flow £'000	Exchange movement £'000	**At 30 June 2004 £'000**
Cash in hand	6,052	5,238	(171)	**11,119**
Overdrafts	(1,672)	(14,078)	(838)	**(16,588)**
Sub total	4,380	(8,840)	(1,009)	**(5,469)**
Debt due after 1 year	(5,572)	691	93	**(4,788)**
Total	(1,192)	(8,149)	(916)	**(10,257)**

23 Acquisitions

The PROTOtechnik – IFT group of companies

On 30th June 2003 the Group purchased the PROTOtechnik-IFT group of companies which was provisionally valued in the 2003 Annual Report and Accounts. In accordance with FRS7, an adjustment has been made in the 2004 Annual Report and Accounts for amendments to that provisional value, now that the investigation for determining these values has been completed. The consideration for the purchase has also been revised. The difference between reduction in net assets and deferred consideration of £6,920,000 has reduced goodwill on acquisition (see note 10). The provisional and final values of net assets acquired are as follows:

	Book and provisional fair value 2003 £'000	Adjustments £'000	**Final fair value 2004 £'000**
Fixed Assets	4,514	–	**4,514**
Current Assets			
Stock	4,808	(2,396)(i)	**2,412**
Debtors	5,203	(645)(ii)	**4,558**
Cash	432	–	**432**
	10,443	(3,041)	**7,402**
Liabilities			
Bank Overdraft	(460)	–	**(460)**
Loans	(5,270)	–	**(5,270)**
Creditors	(4,351)	1,178(iii)	**(3,173)**
	(10,081)	1,178	**(8,903)**
Net Assets	4,876	(1,863)	**3,013**
Goodwill	20,175	(6,920)(iv)	**13,255**
Purchase consideration	25,051	(8,783)	**16,268**
Satisfied by:			
Cash	15,310	–	**15,310**
Deferred Consideration	9,321	(8,783)(v)	**538**
Acquisition Expenses	420	–	**420**
	25,051	(8,783)	**16,268**

Note

(i) Fair value adjustments required to bring work in progress and stock in line with the lower of net realisable value and cost at acquisition

(ii) Fair value adjustment required to reflect recoverability of debtors acquired.

(iii) Overstatement of tax creditor

(iv) The goodwill adjustment is a reflection of the fair value and deferred consideration adjustments detailed above.

(v) Reduction in deferred consideration due to purchase price renegotiation.

23. Acquisitions

Tarragon Embedded Technology Limited

On 5th February 2003 the Group purchased Tarragon Embedded Technology Limited which was valued in the 2003 Annual Report and Accounts. The value assigned to the purchase was based on cash, allotted shares and a deferred consideration of £2,389,000. In accordance with FRS7, the consideration for the purchase has been revised due to a reduction in the estimated deferred consideration of £1,789,000 which was based on the achievement of certain performance criteria which are unlikely to be met. The amended goodwill calculation is as follows:

	Fair value value 2003 *£'000*	Adjustment *£'000*	**Adjusted fair 2004** ***£'000***
Net Assets	490	–	**490**
Goodwill	5,010	(1,789)(i)	**3,221**
Purchase consideration	5,500	(1,789)	**3,711**
Satisfied by:			
Cash	1,803	–	**1,803**
Shares allotted	1,165	–	**1,165**
Deferred consideration	2,389	(1,789)(ii)	**600**
Acquisition expenses	143	–	**143**
	5,500	(1,789)	**3,711**

Note

(i) The goodwill adjustment is a reflection of the deferred consideration adjustments detailed above.

(ii) Adjustment to deferred consideration due to sale and purchase agreement performance related earn-out not being achieved.

24 Commitments

(a) Capital commitments

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

	2004	2003
	£'000	*£'000*
Contracted	**1,568**	6,248

The Company had no capital commitments at 30 June 2004 and £5,568,000 at 30 June 2003.

(b) Operating leases

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

	2004		2003	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	***£'000***	*£'000*	*£'000*
In respect of leases expiring:				
Within one year	**389**	**187**	156	188
Between one and five years	**519**	**366**	394	316
After five years	**1,354**	**–**	1,577	10
	2,262	**553**	2,127	514

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

	2004		2003	
	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**	**8**	36	20
After five years	**429**	**–**	429	–
	465	**8**	465	20

25 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 in 2002 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.

25 Pensions

The pension charge of £4,058,000 (2003: £3,942,000) comprises £2,394,000 (2003: £2,319,000) relating to RGPF, £860,000 (2003: £773,000) relating to RIPS, £765,000 (2003: £482,000) relating to company FURBS contributions and £484,000 (2003: £368,000) 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, and a net increase of £445,000 (2003: no movement) in respect of the prepayment of £1,240,000 (2003: £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 acturial valuation was completed as at 5 April 2002 and updated to 30 June 2004 by Watson Wyatt LLP, qualified actuaries. The major assumptions made were:

	At 30 June 2004	At 30 June 2003	At 30 June 2002	At 30 June 2001
Rate of increase in pensionable salaries	**4.30%**	4.00%	4.30%	4.75%
Rate of increase in pensions in payment				
Pre 1 July 2002 accrual	**3.00%**	3.00%	3.00%	3.25%
Post 1 July 2002 accrual	**3.00%**	2.50%	–	–
Rate of increase in pension in deferment	**3.00%**	2.50%	–	–
Discount rate	**5.80%**	5.35%	5.88%	6.12%
Inflation	**3.00%**	2.50%	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 2004	**Value at 30 June 2004 *£'000***	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	**8.0%**	**30,898**	7.5%	26,960	7.5%	30,213	8.0%	34,303
Bonds	**5.1%**	**8,478**	4.6%	6,814	5.0%	5,689	5.0%	6,600
Cash	**4.0%**	**1,732**	4.0%	3,109	4.0%	1,954	4.5%	2,774
Other	**6.6%**	**869**	6.0%	1,713	5.0%	1,675	5.0%	1,669
		41,977		38,596		39,531		45,346

The scheme is closed to new entrants. As a result of this, the underlying service cost will increase as members reach retirement.

Current contribution rates expected to be payable by the Company for the foreseeable future are 14.4% of pensionable salaries plus a monthly lump sum of £135,000 to make good previous deficits.

25 Pensions

The following amounts at 30 June 2004 and 30 June 2003 were measured in accordance with the requirements of FRS17:

	At 30 June 2004 £'000	At 30 June 2003 £'000	At 30 June 2002 £'000	At 30 June 2001 £'000 (restated)
Total market value of assets	**41,977**	38,596	39,531	45,346
Present value of scheme liabilities	**(69,243)**	(70,351)	(62,102)	(57,895)
Deficit in the scheme	**(27,266)**	(31,755)	(22,571)	(12,549)
Related deferred tax asset	**8,180**	9,527	6,771	3,765
Net pension deficit	**(19,086)**	(22,228)	(15,800)	(8,784)

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss reserve at 30 June 2004 would be as follows:

	At 30 June 2004 £'000	At 30 June 2003 £'000 (restated)	At 30 June 2002 £'000 (restated)	At 30 June 2001 £'000 (restated)
Net assets	**56,156**	63,450	56,092	47,995
Pension (prepayment)/provision	**(1,240)**	(795)	(795)	103
Net pension deficit	**(19,086)**	(22,228)	(15,800)	(8,784)
Net assets including net pension deficit	**35,830**	40,427	39,497	39,314
Profit and loss account reserve	**30,106**	37,126	32,194	25,505
Pension prepayment	**(1,240)**	(795)	(795)	103
Net pension deficit	**(19,086)**	(22,228)	(15,800)	(8,784)
Profit and loss reserve	**9,780**	14,103	15,599	16,824

The following amounts would have been recognised in the financial statements in the year to 30 June 2004 under the requirements of FRS17:

	At 30 June 2004 £'000	At 30 June 2003 £'000
Analysis of amount charged to operating profit		
Current service cost	**(983)**	(1,206)
Past service cost	**(249)**	(150)
	(1,232)	(1,356)
Analysis of amount charged to other finance costs		
Expected return on pension scheme assets	**2,545**	2,732
Interest on pension scheme liabilities	**(3,717)**	(3,643)
	(1,172)	(911)
Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	**1,379**	(4,243)
Experience gains and losses arising on the scheme liabilities	**293**	542
Changes in assumptions underlying the present value of the scheme liabilities	**2,795**	(5,385)
Actuarial gain/(loss) recognised in the STRGL	**4,467**	(9,086)

25 Pensions

Movement in deficit during the year

	2004	2003
	£'000	*£'000*
Deficit in the scheme at beginning of year	**(31,755)**	(22,571)
Movement in the year:		
Current service costs	**(983)**	(1,206)
Contributions	**2,426**	2,169
Past service costs	**(249)**	(150)
Other finance costs	**(1,172)**	(911)
Actuarial gain/(loss)	**4,467**	(9,086)
Deficit in the scheme at end of the year	**(27,266)**	(31,755)

	Year ended 30 June 2004	Year ended 30 June 2003	Year ended 30 June 2002
Details of experience gains and losses			
Difference between the expected and actual return on scheme assets			
Amount (£'000)	**1,379**	(4,243)	(9,671)
Percentage of scheme assets	**3.3%**	11.0%	25.0%
Experience gains and losses on scheme liabilities			
Amount (£'000)	**293**	542	(840)
Percentage of the present value of the scheme liabilities	**0.4%**	0.8%	1.0%
Total amount recognised in the statement of total recognised gains and losses			
Amount (£'000)	**4,467**	(9,086)	(10,359)
Percentage of the present value of the scheme liabilities	**6.5%**	12.9%	17.0%

26 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.

26 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 where possible. This policy is kept under regular review, as appropriate, by the Board. The acquisition on 30 June 2003 of the Prototechnik – IFT group of companies, however, has resulted in some fixed rate borrowings being acquired, 88.5% of total borrowings (2003: 87.4%).

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 15 and 16 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 £31.1m (2003: £26.7m) with its banks, 68.7% (2003: 16.8%) 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 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 the US 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 £60,000 (2003: profit of £199,000). At the year end those forward exchange contracts had been settled leaving £NIL outstanding (2003: £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 no (2003: three) forward exchange contracts outstanding in respect of transactional exposures.

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 (2003: none) of the assets or liabilities were covered.

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

				2004		
		Floating rate	No interest	Fixed rate	Floating rate	No interest
		financial	financial	financial	financial	financial
	Total	liabilities	liabilities	liabilities	assets	assets
Currency	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Sterling	**5,115**	**–**	**(882)**	**–**	**5,997**	**–**
US Dollars	**369**	**(551)**	**–**	**–**	**920**	**–**
Euro	**(15,447)**	**(689)**	**–**	**(18,921)**	**4,110**	**53**
Swiss Franc	**(1,215)**	**(1,215)**	**–**	**–**	**–**	**–**
Yen	**39**	**–**	**–**	**–**	**–**	**39**
	(11,139)	**(2,455)**	**(882)**	**(18,921)**	**11,027**	**92**

26 Derivatives and other financial instruments

			2003		
	Total	Floating rate financial liabilities	No interest financial liabilities	Fixed rate financial liabilities	Floating rate financial assets
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Currency					
Sterling	(2,366)	(340)	(3,291)	–	1,265
US Dollars	3,157	(1,515)	–	–	4,672
Euro	(13,339)	(549)	(9,321)	(3,924)	455
Swiss Franc	(1,256)	(1,256)	–	–	–
	(13,804)	(3,660)	(12,612)	(3,924)	6,392

The above table discloses fixed rate financial liabilities totalling £3.9m which were disclosed in the previous year as floating rate financial liabilities.

Further details on the interest profile of the floating liabilities can be found in notes 15 and 16.

Fair value of financial assets and liabilities

The following are the book values of the Group's financial assets and liabilities at 30 June 2004. The fair values closely approximate to book values.

	2004	2003
	£'000	*£'000*
Cash at bank and in hand	**11,119**	6,052
Bank overdrafts	**(16,588)**	(1,672)
Loans repayable after more than one year	**(4,788)**	(5,572)
Cash deposit	**–**	340
Loan notes	**–**	(340)
Vacant leasehold provisions	**(282)**	(49)
Deferred consideration	**(600)**	(12,563)
	(11,139)	(13,804)

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.

26 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.

	2004			
	Net foreign currency monetary assets/(liabilities)			
	Sterling	US Dollar	Euro	Swiss Franc
	£'000	*£'000*	*£'000*	*£'000*
Functional currency of group operation				
Sterling	**–**	**14,426**	**8,701**	**–**
US Dollar	**68**	**–**	**–**	**–**
Euro	**–**	**–**	**–**	**(1,215)**
	68	**14,426**	**8,701**	**(1,215)**

	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)

27 Minority interests

	Equity minority interest	Non-equity minority interest	Total
	£'000	*£'000*	*£'000*
At 1 July 2003	448	142	590
Minority's interest in the profit on ordinary activities after tax	148	–	148
Dividend paid to minority shareholder	(207)	–	(207)
Foreign exchange movement	(38)	–	(38)
At 30 June 2004	**351**	**142**	**493**

28 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 GmbH

*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.")

Incorporated in Japan

Ricardo Japan K.K.

Incorporated in France

Ricardo SA

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

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