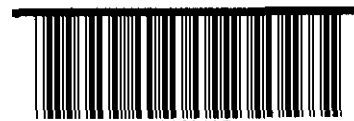


C O N T E N T S

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**RE-SCAN**



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COMPANIES HOUSE 05/11/03

A • B • E  
F I N A N C I A L H I G H L I G H T S

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	2003	2002
	£'000	£'000
TURNOVER ON CONTINUING OPERATIONS	2,692	3,007
LOSS BEFORE TAXATION ON		
ORDINARY ACTIVITIES	(297)	(812)
CONTINUING OPERATIONS	(297)	(296)
NET FUNDS	1,124	1,441
LOSS PER £2 ORDINARY SHARE ON	PENCE	PENCE
CONTINUING OPERATIONS	(26)p	(26)p
BASIC	(26)p	(66)p
EQUITY SHAREHOLDERS' FUNDS		
PER £2 ORDINARY SHARE	154p	180p

## CHAIRMAN'S STATEMENT

The Group made a pre-tax loss of £297,000 on the continuing operations compared with a pre-tax loss of £296,000 last year. However, the losses reported for this year include legal and actuarial adviser costs of £90,000 relating to the pension scheme and costs to date of £58,000 relating to the potential disposal of British Polar Engines. These amounts are significant, but the Board decided that the possible impact of the pension fund deficit was such that the legal position had to be clarified. The proposed disposal of British Polar Engines would involve a reorganisation of the corporate structure and has required the need to involve outside advisers on valuation, in view of the participation of the previous Chairman in the transaction.

I am pleased to report that British Polar Engines made an operating profit of £28,000 against a loss of £380,000 last year. We have continued to rationalise the Group and, following the closure of a trading division of British Polar Engines, ABE Diesels, the Shareholders approved the sale of the unoccupied site at St Helens at the Extraordinary General Meeting on 3 July 2003. The net proceeds of approximately £285,000 from the sale of St Helens will be used to provide working capital for the continuing Group. It is not the present intention of the Board to return these monies to Shareholders as we may wish to make acquisitions, which would benefit the Group, but no specific acquisition has been identified at the current time.

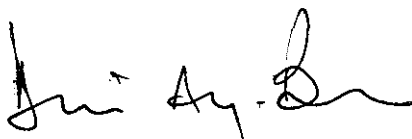
The previous Chairman has reported that the Company has been notified of significant deficits in the funding for its pension scheme. This is an extremely complicated issue, which has been further affected by the Government announcing a new pension strategy, and draft regulations in June of this year. The principal change, which is already in force, is that, in the event of a wind-up of a pension scheme, the employer is liable for the full cost of the actuarial liabilities, which is typically a greater sum than that under the Minimum Funding Requirement rules.

At the date of the last full triennial actuarial valuation 1 April 2002 the deficit on the pension scheme was £1,763,000. This valuation has been updated to 31 March 2003 by a qualified independent actuary giving a deficit of £4,427,000. This sum is closer to the anticipated liability under the new rules. The ABE Pension Scheme actually has four main employers within it, one of which has left the group, and another is in administration, and will shortly be liquidated. The Board has been advised by its lawyers and leading counsel that each employer within the scheme is only responsible for the liability attaching to its own past and present employees, both as to ongoing contributions and on a wind up of part or all of the scheme. British Polar Engine's share of this deficit is approximately one third and the Company's share is less than 1%. The advisers to the trustees of the scheme are mounting an argument that any remaining employers in a scheme are liable for other employers who are not in a position to meet their obligations. Whilst the law is not clear enough to be 100% certain, our counsel has advised us that the advisers' to the trustees argument is incorrect. The Board is currently reviewing the overall situation with its advisers and will announce the results of this review once it is completed.

The conditional offer for BPE from an MBO team, which involves three of the current directors of BPE, is now being renegotiated in order to achieve terms which are acceptable to the Board of ABE. If terms were agreed, this would also be the subject of a circular and shareholder approval in due course.

The Board is considering further acquisition targets and will keep Shareholders fully informed of developments and will seek the appropriate permissions for any acquisition when required.

D.A.H. Brown  
Chairman  
28 July 2003



A • B • E  
D I R E C T O R S ' R E P O R T

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The directors submit their report and audited accounts for the year ended 31 March 2003.

## ACTIVITIES

During the year the Company has acted as a parent undertaking for a subsidiary engaged in diesel and related engineering activities. Details of the trading subsidiary are set out in note 13.

## RESULTS AND DIVIDENDS

The Group loss for the year on ordinary activities before taxation amounted to £297,000 (2002: loss of £812,000). The directors do not recommend a dividend on the ordinary shares for the year (2002: nil per ordinary share).

## DIRECTORS

The names of the directors who served during any part of the period from 1 April 2002 to 31 March 2003 are:

Mr D A H Brown	Chairman
Mr S J Cockburn	Non-executive Director
Mrs K M Good	Finance Director and Company Secretary
Mr R A Pearce Gould	Chairman (Retired 11 November 2002)

Biographical details of the present directors are set out on page 37.

Apart from Mr R A Pearce Gould who retired on 11 November 2002, all the directors served throughout the year.

In accordance with the articles of association, Mr S J Cockburn retires by rotation as a director of the Company and, being eligible, offers himself for re-election. His biographical details are set out on page 37. Mr S J Cockburn does not have a service contract with the Company.

## SUBSTANTIAL HOLDINGS

As at 18 July 2003 the Company had been notified of the following substantial interests in the issued ordinary share capital of the Company:

Pershing Keen Nominees Limited – account PSL991 (on account of non-discretionary clients including a holding of 5.2% Magro Investments SA)	18.2%
R A Pearce Gould – account CMC (on behalf of Cambridge Management Consultants Limited)	8.8%
P Gyllenhammar	5.1%
P M Tucker	4.0%
J R M Keatley	3.2%

A • B • E  
D I R E C T O R S ' R E P O R T

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**BENEFICIAL INTERESTS IN SIGNIFICANT CONTRACTS**

None of the directors had a material interest in any contract of significance to which the Company or any of its subsidiaries was party during the year.

**BENEFICIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

The beneficial interests of the directors, their spouses and children (if any), in the share capital of the Company according to the register kept by the Company under section 325 of the Companies Act 1985 as at 1 April 2002 and 31 March 2003 were as follows:

	Ordinary shares of £2 each		7 per cent Cumulative Preference shares		8 per cent Cumulative Redeemable Preference shares	
	2003	2002	2003	2002	2003	2002
Mr D A H Brown	2,146	2,146	-	-	-	-
Mr S J Cockburn	1,250	1,250	55,314	55,314	2,000	2,000
Mrs K M Good	500	500	-	-	-	-

At the relevant dates Mr S J Cockburn had a non beneficial interest in 10,000 7 per cent cumulative preference shares. No director had any interest in the shares of any subsidiary. Details of share options held by Directors are set out in the Remuneration Report.

A • B • E  
D I R E C T O R S ' R E P O R T

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Since 31 March 2003 and up to and including 18 July 2003 there have been no changes in the directors' interests in the share capital of the Company.

#### **CHARITABLE AND POLITICAL DONATIONS**

The Group made no political donations during the year and charitable donations amounting to £nil (2002: £80) during the year.

#### **EMPLOYEE INVOLVEMENT**

We have maintained our commitment to employee involvement throughout the business. Staff are kept informed of the performance and objectives of the Group through the interim and annual published results and staff meetings. Working teams allow management to meet with staff representatives, providing opportunities for staff to contribute to the every day running of the business.

#### **DISABLED PERSONS**

It is the Company's policy to give sympathetic consideration to the recruitment, continuing employment, training, career development and promotion of disabled persons.

#### **CREDITOR PAYMENT POLICY**

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the Better Payment Practice Code co-ordinated by the Better Payment Practice Group. For other suppliers, the Company's policy is to:

- (a) Settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- (b) Ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) Pay in accordance with its contractual and other legal obligations.

Wherever possible the subsidiary follows the same policy. The average number of days which the company took to pay trade creditors was 30 days (2002: 30 days).

A • B • E  
D I R E C T O R S ' R E P O R T

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**NOTICE OF ANNUAL GENERAL MEETING**

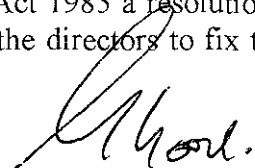
The notice of the Annual General Meeting of the Company is set out on pages 38 to 39.

**Resolution 5 – Disapplication of pre-emption rights**

In accordance with section 95 of the Companies Act 1985, it is proposed to renew at the AGM for a further year the authority of the directors to allot equity securities for cash without first being required to offer such securities to shareholders of the Company by way of rights issue and, in other cases, to any issue of equity securities representing no more than 131,342 ordinary shares, equivalent to 10 per cent of the issued ordinary share capital of the Company. The authority will terminate no later than fifteen months after the passing of this resolution.

**AUDITORS**

In accordance with sections 385 and 390A of the Companies Act 1985 a resolution to re-appoint Grant Thornton as auditors to the Company and authorise the directors to fix their remuneration will be put to the annual general meeting.



On behalf of the board

K M Good

Finance Director and Company Secretary

28 July 2003

A • B • E  
P R I N C I P A L A C C O U N T I N G P O L I C I E S

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The accounts have been prepared in accordance with applicable Accounting Standards up to and including FRS 19. A summary of the principal accounting policies, which have been applied consistently, is set out below.

#### **BASIS OF ACCOUNTING**

The accounts are prepared on the historical cost basis.

#### **BASIS OF CONSOLIDATION**

The Group accounts incorporate the accounts of Associated British Engineering plc and its subsidiary undertakings to 31 March each year. The Group accounts include the results of subsidiaries acquired or disposed of during the year from or to the effective date of acquisition or disposal.

#### **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. Goodwill acquired is capitalised and amortised through the profit and loss account over its useful economic life.

#### **TURNOVER**

Turnover represents amounts invoiced for goods sold and services rendered, net of value added tax.

#### **STOCK**

Stocks of raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Work in progress and finished goods include an appropriate allocation of overheads.

#### **LEASED ASSETS**

The annual rentals on operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

A • B • E  
A C C O U N T I N G P O L I C I E S

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### TANGIBLE FIXED ASSETS

Freehold land is not depreciated. Other fixed assets are depreciated over their estimated useful lives at the following annual rates applied to cost:

Freehold buildings	2 - 5 per cent
Plant & machinery	7½ - 33⅓ per cent

### DEFERRED TAXATION

Deferred tax is recognized on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognized when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### FOREIGN CURRENCIES

Assets and liabilities of overseas companies in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and consequential adjustments to balances are dealt with through reserves. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

### PENSIONS

Contributions to the Group's defined benefit pension scheme are charged to the profit and loss account so as to spread the cost over the average service lives of the participating employees. Contributions to the group personal pension plan are charged against operating profit as incurred. The Group has adopted the transition provisions of FRS 17, the required disclosures being set out in note 24.

### FINANCIAL INSTRUMENTS

Financial assets are recognized in the balance sheet at the lower of cost and net realisable value.

Income and expenditure arising on financial instruments is recognized on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

A • B • E  
**G R O U P P R O F I T A N D L O S S A C C O U N T**  
**F O R T H E Y E A R E N D E D 3 1 M A R C H 2 0 0 3**

		<b>Total</b>	
	<b>Notes</b>	<b>2003</b>	2002
		<b>£'000</b>	£'000
<b>Turnover:</b>			
Continuing operations		2,692	3,007
Discontinued operations		-	580
	1	2,692	3,587
<b>Operating loss:</b>			
Continuing operations		(323)	(344)
Discontinued operations		-	(176)
	2	(323)	(520)
Loss arising on closure of trading division	5b	-	(340)
Loss on ordinary activities before finance costs:			
Continuing operations		(323)	(344)
Discontinued operations		-	(516)
		(323)	(860)
Net finance income			
Continuing operations	6	26	48
<b>Loss on ordinary activities before taxation:</b>			
Continuing operations		(297)	(296)
Discontinued operations		-	(516)
		(297)	(812)
<b>Taxation</b>	7	5	-
Loss on ordinary activities after taxation			
Appropriation in respect of non-equity shares	8	(51)	(51)
Retained loss		(343)	(863)
<b>Loss per ordinary share</b>			
Continuing operations	10	(26)p	(26)p
Basic	10	(26)p	(66)p

**R E C O N C I L I A T I O N O F M O V E M E N T S I N**  
**S H A R E H O L D E R S F U N D S**  
**F O R T H E Y E A R E N D E D 3 1 M A R C H 2 0 0 3**

		<b>2003</b>	2002
		<b>£'000</b>	£'000
Retained loss		(343)	(863)
Appropriation in respect of non equity shares		51	51
Shareholders' funds at 1 April 2002		3,175	3,987
Shareholders' funds at 31 March 2003		2,883	3,175

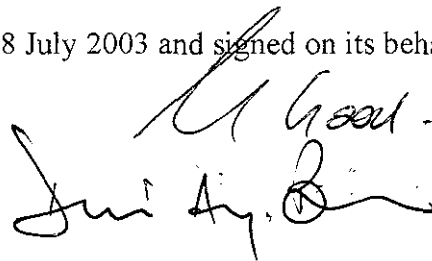
There were no recognised gains or losses other than the result for the financial year.

The accounting policies on pages 7 and 8 and the notes on pages 13 to 27 form part of these accounts.

A • B • E  
**G R O U P B A L A N C E S H E E T**  
**A S A T 3 1 M A R C H 2 0 0 3**

	Notes	2003 £'000	2002 £'000
<b>FIXED ASSETS</b>			
Tangible assets	11	473	553
<b>CURRENT ASSETS</b>			
Stock	14	1,279	1,400
Property held for sale		138	116
Debtors - amounts falling due within one year	15	621	621
Cash at bank and in hand		1,138	1,518
		<b>3,176</b>	<b>3,655</b>
<b>Creditors - amounts falling due within one year</b>	16	734	991
<b>Net current assets</b>		<b>2,442</b>	<b>2,664</b>
<b>Total assets less current liabilities</b>		<b>2,915</b>	<b>3,217</b>
Creditors - amounts falling due after one year	16	10	15
Provisions for liabilities and charges	18	22	27
<b>Net assets</b>		<b>2,883</b>	<b>3,175</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	3,339	3,339
Share premium account		5,038	5,038
Other reserves		11	11
Profit and loss account	20	(5,505)	(5,213)
Equity shareholders' funds		<b>2,018</b>	2,361
Non-equity shareholders' funds		<b>865</b>	814
<b>Total shareholders' funds</b>		<b>2,883</b>	<b>3,175</b>

Approved by the Board on 28 July 2003 and signed on its behalf by:



K M Good, Director

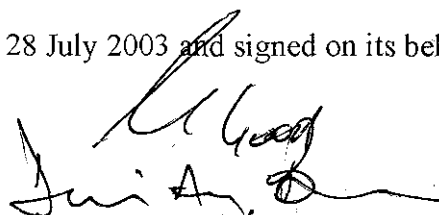
D A H Brown, Director

The accounting policies on pages 7 and 8 and the notes on pages 13 to 27 form part of these accounts.

A • B • E  
 B A L A N C E S H E E T  
 A S A T 3 1 M A R C H 2 0 0 3

	Notes	2003 £'000	2002 £'000
<b>FIXED ASSETS</b>			
Freehold land and buildings	11	599	-
Investments	13	<u>2,484</u>	<u>2,484</u>
		<u>3,083</u>	<u>2,484</u>
<b>CURRENT ASSETS</b>			
Property held for sale		222	200
Debtors - amounts falling due within one year	15	7	2
Debtors - amounts falling due after one year	15	-	750
Cash at bank and in hand		<u>1,038</u>	<u>1,314</u>
		1,267	2,266
<b>Creditors - amounts falling due within one year</b>	16	932	730
<b>Net current assets</b>		<u>335</u>	<u>1,536</u>
<b>Total assets less current liabilities</b>		3,418	4,020
Creditors - amounts falling due after one year	16	2,292	2,292
Provisions for liabilities and charges	18	<u>22</u>	<u>27</u>
<b>Net assets</b>		<u>1,104</u>	<u>1,701</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	3,339	3,339
Share premium account		5,038	5,038
Other reserves		212	212
Profit and loss account	20	(7,485)	(6,888)
Equity shareholders' funds		<span style="border: 1px solid black; padding: 2px;">239</span>	<span style="border: 1px solid black; padding: 2px;">887</span>
Non-equity shareholders' funds		<span style="border: 1px solid black; padding: 2px;">865</span>	<span style="border: 1px solid black; padding: 2px;">814</span>
<b>Total shareholders' funds</b>		<u>1,104</u>	<u>1,701</u>

Approved by the Board on 28 July 2003 and signed on its behalf by:



K M Good, Director

D A H Brown, Director

The accounting policies on pages 7 and 8 and the notes on pages 13 to 27 form part of these accounts.

A•B•E  
**GROUP CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2003**

	2003 £'000	2002 £'000
<b>OPERATING ACTIVITIES</b>		
Cash outflow from operating activities	21 <u>(313)</u>	<u>(314)</u>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Finance income received	34	52
Finance costs paid	(3)	(3)
Finance cost element of finance lease rental payments	(5)	(1)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<u>26</u>	<u>48</u>
<b>TAXATION</b>		
UK taxation paid	5	(5)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Properties held for sale	(22)	-
Purchase of tangible fixed assets	(27)	(42)
Net proceeds on sale of tangible fixed assets	17	3
<b>Net cash outflow from capital expenditure and financial investment</b>	<u>(32)</u>	<u>(39)</u>
<b>ACQUISITIONS AND DISPOSALS</b>		
Acquisition of Kelvin Diesels	-	(148)
Discontinued catering equipment operations	-	(74)
<b>Net cash outflow from acquisitions and disposals</b>	<u>-</u>	<u>(222)</u>
Cash outflow before financing	<u>(314)</u>	<u>(532)</u>
<b>FINANCING</b>		
Decrease in debt	(12)	(12)
Capital element of finance lease repayments	(5)	(6)
<b>Net cash outflow from financing</b>	<u>(17)</u>	<u>(18)</u>
<b>Decrease in cash in the year</b>	<u>(331)</u>	<u>(550)</u>

A detailed analysis is given in note 21.

A • B • E  
NOTES TO THE ACCOUNTS

**1 ANALYSIS OF TURNOVER BY GEOGRAPHICAL DESTINATION**

	2003 £'000	2002 £'000
United Kingdom	1,201	2,435
Europe	424	485
Middle East	114	80
Far East and Australasia	836	263
Africa	33	124
North and South America	84	200
	<b>2,692</b>	<b>3,587</b>

All of the above turnover arises from diesel and related engineering activities and originates in the United Kingdom.

**2 OPERATING LOSS**

	Total 2003 £'000	Continued 2002 £'000	Discontinued 2002 £'000	Total 2002 £'000
Turnover	2,692	3,007	580	3,587
Changes in stocks of finished goods and work in progress	121	(953)	(159)	(1,112)
Raw materials and services	1,499	2,621	669	3,290
Staff costs (note 3)	1,069	1,374	223	1,597
Auditors' remuneration for audit (Company £24,000 (2002: £16,000))	34	27	-	27
Depreciation				
Tangible fixed assets	93	82	23	105
Exceptional items (note 5a)	148	150	-	150
Operating lease rentals on plant and machinery	51	50	-	50
Net operating expenses	3,015	3,351	756	4,107
Operating loss	<b>(323)</b>	<b>(344)</b>	<b>(176)</b>	<b>(520)</b>

An amount of £64,000 (2002 :£29,000) was paid to the auditors in respect of the provision of non audit services during the year. Of this amount in 2003 £42,000 relates to advice regarding the potential sale of British Polar Engines Limited with the balance of £22,000 relating to corporation tax compliance and advisory work.

### 3 STAFF COSTS AND EMPLOYEES

The average monthly number of persons employed by the Group, including executive directors, during the year was 37 (2002: 57).

	2003 £'000	2002 £'000
Staff costs for the above persons:		
Wages and salaries	895	1,360
Social security costs	81	117
Other pension costs	93	120
	1,069	1,597

### 4 DIRECTORS' REMUNERATION

Details in respect of directors' remuneration are given in the Remuneration report on pages 34 to 36.

### 5 EXCEPTIONAL ITEMS

#### Exceptional operating item

#### (a) 2003

The group incurred exceptional professional costs relating to the potential sale of British Polar Engines business of £58,000 and professional costs of £90,000 in respect of advice regarding the ABE pension scheme.

#### 2002

As a result of a downturn in trading activity, an additional provision of £150,000 was made against the stock held by British Polar Engines Limited.

#### Discontinued activities

#### (b) 2002

On 31 March 2002 a trading division of British Polar Engines Limited was closed resulting in costs of £340,000.

### 6 NET FINANCE INCOME

	2003 £'000	2002 £'000
Finance costs:		
On bank loans and overdrafts	(3)	(3)
On finance leases	(5)	(1)
	(8)	(4)
Other interest receivable	34	52
	26	48

A • B • E  
 NOTES TO THE ACCOUNTS

**7 TAXATION**

The tax credit represents:	2003 £'000	2002 £'000
United Kingdom corporation tax at 30% (2002: 30%)	-	-
Adjustment in respect of prior period	<u>5</u>	-
Total current tax and tax on loss on ordinary activities	<u>5</u>	<u>-</u>

Factors affecting tax credit for period.

The tax assessed for the period is different to the standard rate of corporation tax in the UK 30% (2002: 30%). The differences are explained as follows:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	<u>297</u>	<u>812</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	89	244
Effect of:		
Expenses not deductible for tax purposes	(45)	(47)
Difference between depreciation for the period and capital allowances	(98)	-
Utilisation of tax losses	90	-
Profits not liable to corporation tax	45	47
Tax losses in the period not utilised	(81)	(244)
Adjustment in respect of prior periods	<u>5</u>	-
Current tax credit for period	<u>5</u>	<u>-</u>

The group has trading losses of approximately £1.2million (2002: £1.5million), surplus ACT of approximately £910,000 (2002: £910,000) and capital losses of £9.5million (2002: £9.5million) available. These are available to set against future taxable profits, taxation liabilities and capital gains respectively. These amounts are subject to agreement with the Inland Revenue.

**8 DIVIDENDS**

	2003 £'000	2002 £'000
Appropriation in respect of non-equity shares:		
Preference 7%	39	39
Preference 8%	<u>12</u>	<u>12</u>
	<u>51</u>	<u>51</u>

The company does not have distributable reserves and is, therefore, unable to pay the preference dividends. The cumulative amount of preference dividends unpaid at 31 March 2003 was £153,000 (2002: £102,000).

A • B • E  
 NOTES TO THE ACCOUNTS

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**9 LOSS FOR THE FINANCIAL YEAR**

As permitted by section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in these accounts. The parent Company's loss for the financial year was £597,000 (2002: loss £2,171,000).

**10 LOSS PER ORDINARY SHARE**

The calculation of loss per ordinary share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted loss per share is based on the basic loss per share, adjusted to allow for the issue of shares and the post tax effect of dividends. There has been no dilution in the year or the prior year.

	2003			2002		
	Loss £'000	Weighted average number of shares	Per shares amount pence	Loss £'000	Weighted average number of shares	Per shares amount pence
Basic loss per share	(343)	1,313,427	(26)	(863)	1,313,427	(66)
Discontinued activities	-	1,313,427	-	(516)	1,313,427	(40)
Loss per share on continuing operations	(343)	1,313,427	(26)	(347)	1,313,427	(26)

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NOTES TO THE ACCOUNTS

**11 TANGIBLE FIXED ASSETS**  
**Group**

	<b>Freehold land and buildings £'000</b>	<b>Plant and Machinery £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 April 2002	677	1,626	2,303
Additions	12	18	30
Disposals	-	(155)	(155)
<b>At 31 March 2003</b>	<b>689</b>	<b>1,489</b>	<b>2,513</b>
<b>Depreciation</b>			
At 1 April 2002	393	1,357	1,750
Charge for the year	32	61	93
Disposals	-	(138)	(138)
<b>At 31 March 2003</b>	<b>425</b>	<b>1,280</b>	<b>1,705</b>
<b>Net book value</b>			
<b>At 31 March 2003</b>	<b>264</b>	<b>209</b>	<b>473</b>
At 31 March 2002	284	269	553

Plant and machinery assets with a net book value of £18,000 (2002: £17,000) are held under finance leases. The amount of depreciation in respect of such assets amounted to £2,000 (2002: £2,000) for the year.

**Company**

	<b>Freehold land and buildings £'000</b>
<b>Cost</b>	
At 1 April 2002	-
Transfer from subsidiary undertaking	607
<b>At 31 March 2003</b>	<b>607</b>
<b>Depreciation</b>	
At 1 April 2002	-
Charge for the year	8
<b>At 31 March 2003</b>	<b>8</b>
<b>Net book value</b>	
<b>At 31 March 2003</b>	<b>599</b>
At 31 March 2002	-

The above property was transferred from British Polar Engines Limited at market value.

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**12 CAPITAL COMMITMENTS**

The Group and Company had no capital commitments (2002: £nil).

**13 FIXED ASSET INVESTMENTS**

<b>Company</b>	<b>Subsidiary undertakings £'000</b>
Cost	
At 1 April 2002 and 31 March 2003	<u>3,406</u>
Amounts written off	
At 1 April 2002 and 31 March 2003	<u>922</u>
Net book amount at 1 April 2002 and 31 March 2003	<u>2,484</u>

The principal subsidiary undertakings, both of which are wholly owned, are:

<b>Company</b>	<b>Activity</b>	<b>Country of incorporation</b>
British Polar Engines Limited	Engineering	Great Britain
Danway Limited	Non-trading	Cayman Islands

As discussed in the Chairman's statement the Board is in the process of attempting to dispose of the Group's interest in British Polar Engines Limited. If this disposal is completed it is likely to lead to a substantial loss which, in accordance with existing accounting standards is not reflected in the Group's profit and loss account for the year ended 31 March 2003.

**14 STOCK**

<b>Group</b>	<b>2003 £'000</b>	<b>2002 £'000</b>
Raw materials	<b>134</b>	162
Work in progress	<b>188</b>	254
Finished goods	<b>957</b>	984
	<u><b>1,279</b></u>	<u>1,400</u>

The Company does not hold stock.

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NOTES TO THE ACCOUNTS

**15 DEBTORS**

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year:				
Trade debtors	530	561	-	-
Other debtors	72	57	3	-
Prepayments and accrued income	19	3	4	2
	<u>621</u>	<u>621</u>	<u>7</u>	<u>2</u>
Amounts falling due after one year:				
Amounts due from group undertakings	-	-	-	750
	<u>621</u>	<u>621</u>	<u>7</u>	<u>752</u>

**16 CREDITORS**

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year:				
Bank loans	-	12	-	-
Bank overdrafts	-	49	-	-
Obligations under finance leases	4	4	-	-
Trade creditors	339	480	-	-
Amounts due to group undertakings	-	-	746	580
Other taxation and social security	35	36	4	4
Other creditors	254	253	81	97
Accruals and deferred income	102	157	101	49
	<u>734</u>	<u>991</u>	<u>932</u>	<u>730</u>

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due after one year:				
Obligation under finance leases	10	12	-	-
Amounts due to group undertakings	-	-	2,292	2,292
Other creditors	-	3	-	-
	<u>10</u>	<u>15</u>	<u>2,292</u>	<u>2,292</u>

The net finance lease obligations are due:

In 1 year or less	4	4	-	-
Between 1 and 2 years	4	4	-	-
Between 2 and 5 years	6	8	-	-
	<u>10</u>	<u>16</u>	<u>-</u>	<u>-</u>

A • B • E  
NOTES TO THE ACCOUNTS

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## 17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash, some borrowings, and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. At 31 March 2003 the Group has positive cash balances of £1,138,000 (2002: £1,518,000) and no bank overdrafts (2002: £49,000). Short-term debtors and creditors have been excluded from all the following disclosures.

Throughout the period under review, the Group has not traded in any financial instruments.

### RISKS

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have been consistently applied throughout the period.

#### INTEREST RATE RISK

The Group finances its operations through a mixture of preference shares, cash balances and some borrowings. At the year-end 100% (2002: 100%) of the Group's borrowings were at a fixed rate of interest. The interest rate exposure of the financial liabilities of the Group, all of which are denominated in Sterling, as at 31 March 2003 and 31 March 2002 was as follows:

	2003 £'000	2002 £'000
Sterling		
Preference shares	712	712
Finance leases	14	77
	<u>726</u>	<u>789</u>

The interest rate of the preference shares is disclosed in note 19. The directors do not consider that the level of borrowings at 31 March 2003 expose the Group to significant risk, and have accordingly not calculated a weighted average interest rate or weighted average period for which interest rates are fixed. The Group has no financial assets, other than short-term and long-term debtors and cash at bank.

#### LIQUIDITY RISK

The Group's liquidity is dependent on the cash balances available. The maturity profile of the Group's financial liabilities at 31 March 2003 and 31 March 2002 is set out in note 16.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors consider that the fair values of the Group's financial instruments at 31 March 2003 and 31 March 2002 are not materially different from their book values.

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**18 PROVISIONS FOR LIABILITIES AND CHARGES**

**Group and  
Company  
£'000**

**PENSIONS (note 24)**

At 1 April 2002	27
Released to profit and loss account	(5)
<b>At 31 March 2003</b>	<b>22</b>

**DEFERRED TAXATION**

There is no unprovided deferred taxation liability at 31 March 2003 or 31 March 2002.

The directors consider that there are currently no plans for the distribution of the retained reserves of the overseas subsidiary that would give rise to a UK corporation tax liability. Consequently no deferred tax provision has been made.

No provision has been made for the potential deferred tax asset on the trading losses carried forward as they are not sufficiently certain to crystallize in the foreseeable future. The amounts not recognized (all of which have been calculated at 30%) are set out below:

**Group**

	2003 £'000	2002 £'000
Arising from trading losses	330	367
Arising from capital losses	2,850	2,850
Other timing differences	413	407
	<b>3,593</b>	<b>3,624</b>

**Company**

	2003 £'000	2002 £'000
Arising from trading losses	215	172
Arising from capital losses	2,760	2,760
Other timing differences	-	-
	<b>2,975</b>	<b>2,932</b>

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**19 CALLED UP SHARE CAPITAL**

	<b>Group and Company</b>	
	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Authorised:		
Equity		
1,699,078 ordinary shares of £2 each	3,398	3,398
Non equity		
750,000 7% cumulative preference shares of £1 each	750	750
1,681,443 8% cumulative redeemable preference shares of £1 each	1,681	1,681
	<b>5,829</b>	<b>5,829</b>
Allotted, called up and fully paid:		
Equity		
1,313,427 ordinary shares of £2 each	2,627	2,627
Non equity		
555,000 7% cumulative preference shares of £1 each	555	555
157,395 8% cumulative redeemable preference shares of £1 each	157	157
	<b>3,339</b>	<b>3,339</b>

Further to the Extraordinary General Meeting held on 1 September 1999 the ordinary shares have 200 votes per share.

The Company has the power to redeem the 8 per cent cumulative redeemable preference shares at par (together with arrears of dividends) at any time. The preference shares have a preferential right to return of capital on a winding up. All preference shares are non voting unless the dividends are six months in arrears or the resolution relates to the winding up of the Company or affects the rights attaching to them. Since the dividends are more than 6 months in arrears, the 8% cumulative redeemable preference shares of £1 each have 50 votes per share and the 7% cumulative preference shares of £1 each have 4 votes per share.

The Company operates an executive share option scheme under which options are granted with the guidance of the remuneration committee. At 31 March 2003 the following options were unexercised:

Date of Grant	Dates exercisable	Price	Options
11 July 1994	July 1997 to July 2004	£8.50	2,480
6 January 2001	January 2007 to January 2011	£2.00	8,500
			10,980

**20 PROFIT AND LOSS ACCOUNT**

	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April 2002	(5,213)	(6,888)
Retained loss	(343)	(648)
Appropriation in respect of non equity shares	51	51
<b>At 31 March 2003</b>	<b>(5,505)</b>	<b>(7,485)</b>

Cumulative preference dividends not paid at 31 March 2003 were £153,000 (2002: £102,000)

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21 NOTES OF THE CASH FLOW STATEMENT	2003 £'000	2002 £'000
Reconciliation of operating loss to net cash inflow from operating activities:		
Operating loss	(323)	(520)
Depreciation charges	93	105
Decrease in stocks	121	231
Decrease in debtors	-	430
Decrease in creditors	(199)	(555)
Decrease in pension provision	(5)	(5)
Net cash outflow from operating activities	<u>(313)</u>	<u>(314)</u>
Reconciliation of net cash flow to movement in net cash/(debt):		
Decrease in cash in the year	(331)	(550)
Change in net debt	12	12
Capital element of finance lease payments	5	6
New finance leases	(3)	(18)
	<u>(317)</u>	<u>(550)</u>
Net funds at the beginning of the year	<u>1,441</u>	<u>1,991</u>
Net funds at the end of the year	<u>1,124</u>	<u>1,441</u>

Analysis of changes in net funds/(debt):

	2002 £'000	Cash flow £'000	Other non cash changes £'000	2003 £'000
Cash at bank and in hand	1,518	(380)	-	1,138
Bank overdraft	(49)	49	-	-
	<u>1,469</u>	<u>(331)</u>	<u>-</u>	<u>1,138</u>
Debt due within one year	(12)	12	-	-
Finance leases	(16)	5	(3)	(14)
Total	<u>1,441</u>	<u>(314)</u>	<u>(3)</u>	<u>1,124</u>

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**22 CONTINGENT LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bankers indemnities	<u>30</u>	<u>30</u>	<u>-</u>	<u>-</u>

**23 COMMITMENTS UNDER OPERATING LEASES**

At 31 March the Group had the following annual commitments under non-cancellable operating leases:

	<b>Land and buildings</b>		<b>Other</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Expiring within one year	-	-	<b>10</b>	-
Expiring between two and five years inclusive	-	-	<b>17</b>	<b>27</b>
Expiring in more than five years	<u>16</u>	<u>16</u>	<u>-</u>	<u>-</u>
	<u>16</u>	<u>16</u>	<u>27</u>	<u>27</u>

**24 PENSIONS**

The Group operates a defined benefit pension scheme, holding the assets in a separate trustee administered fund ("The ABE Pension Fund"). The required contributions are assessed with the advice of an independent qualified actuary using the projected unit method and charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. At 31 March 2003, the Pension Fund had 20 active members, 195 deferred members, and 178 funded pensioners. The group also has a designated group personal pension plan which meets stakeholder requirements.

The ABE Pension Scheme actually has four main employers within it, one of which has left the group, and another is in administration, and will shortly be liquidated. The Board has been advised by its lawyers and leading counsel that each employer within the scheme is only responsible for the liability attaching to its own past and present employees, both as to ongoing contributions and on a wind up of part or all of the scheme. British Polar Engine's share of this deficit is approximately one third and the Company's share is less than 1%. The advisers to the trustees of the scheme are mounting an argument that any remaining employers in a scheme are liable for other employers who are not in a position to meet their obligations. Whilst the law is not clear enough to be 100% certain, our counsel has advised us that the advisers' to the trustees argument is incorrect. The Board is currently reviewing the overall situation with its advisers and will announce the results of this review once it is completed. The disclosures set out below are for the whole scheme.

**24 PENSIONS - continued**

The principal assumptions used in the most recent actuarial valuation as at 1 April 2002 are based upon price inflation of 2.8% per annum, an investment return of 6.3% per annum prior to retirement and 5.3% per annum in retirement, pay growth of 4.5% per annum (including allowance for promotions) and increases in present and future pensions in payment (where subject to increases in line with RPI capped at 5% per annum) at 2.6% per annum. At that date, the market value of the assets of the fund was £8,102,000 (including the value of insured pensions) and was sufficient to cover 76% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Ionian Investment Management, a division of Fiske plc, of which Mr S J Cockburn is Deputy Chairman and a shareholder, manages the pension fund investments.

Employer contributions of £93,000 were paid into the scheme over the year (2002: £120,000). This is stated after a reduction of £5,000 (2002: £5,000) representing the amortization, over the expected average remaining service lives of the employees, of a provision made in previous years as a result of a preceding actuarial valuation. This provision was £22,000 at 31 March 2003 (2002: £27,000). Following the results of the formal actuarial valuation carried out as at 1 April 2002, the level of employer contributions being paid into the Scheme increased from 13% per annum of pensionable salaries to 16.5% per annum of pensionable salaries from 1 March 2003.

In November 2000, the Accounting Standards Board issued FRS 17 "Retirement Benefits", replacing SSAP 24 "Accounting for Pension Costs". Certain disclosures are required in the transition period, for periods which end on or after 22 June 2001. These further disclosures are set out below.

The company operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 1 April 2002 and updated to 31 March 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	2003	2002
Rate of increase in salaries	2.60%	2.80%
Rate of increase of pensions in payment increasing at RPI	2.40%	2.55%
Discount rate	5.40%	6.00%
Inflation assumption	2.60%	2.80%

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NOTES TO THE ACCOUNTS

**24 PENSIONS - continued**

The assets in the scheme and the expected rates of return (net of expenses) were:

	2003		2002	
	%	£'000	%	£'000
Equities	5.10	2,949	6.90	4,787
Bonds	2.60	2,558	4.40	2,449
Cash	1.50	818	2.60	557
Insured pensions	5.40	321	6.00	-
Total market value of assets		6,646		7,793
Actuarial value of liability		(11,073)		(9,556)
Deficit in the scheme		(4,427)		(1,763)
Related deferred tax asset		1,328		529
Net pension liability		(3,099)		(1,234)

	2003 £'000
<b>Movement in deficit during the year</b>	
Deficit in scheme at beginning of year	(1,763)
Movement in year:	
Current service cost	(88)
Contributions	85
Finance cost	(120)
Actuarial loss	(2,541)
Deficit in scheme at end of year	(4,427)

	2003 £'000
<b>Analysis of finance cost on pension scheme</b>	
Expected return on pension scheme assets	444
Interest on pension liabilities	(564)
Net return	(120)

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 N O T E S T O T H E A C C O U N T S

**24 PENSIONS - continued**

	<b>2003</b> <b>£'000</b>
<b>Analysis of the amount that would have been charged to operating profit</b>	
Service cost	88
Past service cost	-
Total operating charge	88

	<b>2003</b> <b>£'000</b>
<b>Analysis of amount that would have been recognised in statement of total recognised gains and losses</b>	
Actual return less expected return on assets	(1,603)
Experience gains and losses on liabilities	(93)
Changes in assumptions	(845)
Actuarial loss recognised	(2,541)

Had the Group fully adopted FRS 17 in these financial statements the group profit and loss account would have stated as follows:

	<b>2003</b> <b>£'000</b>	2002 £'000
Profit and loss account at 31 March	(5,505)	(5,213)
Deficit relating to the pension fund	(4,427)	(1,763)
Profit and loss account at 31 March as adjusted	(9,932)	(6,976)

The deferred taxation asset relating to the pension liability has not been included above because it is not expected to crystallise.

	<b>2003</b> <b>£'000</b>	<b>% of</b> <b>scheme</b> <b>assets/</b> <b>liabilities</b>
<b>History of experience gains and losses</b>		
The following disclosure will be built up over time as a five year history:		
Difference between expected and actual return on scheme assets	(1,603)	(24)
Experience gains and losses on scheme liabilities	(93)	1
Total amount recognised in statement of total recognised gains and losses	(2,541)	23

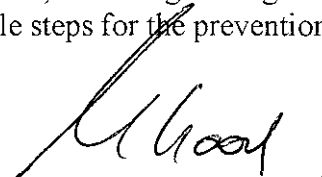
A • B • E  
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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The directors are required by UK Company Law to prepare accounts for each financial year that 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 of the Group for that period.

The directors confirm that suitable accounting policies have been used, applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the accounts for the year ended 31 March 2003. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



On behalf of the board  
K M Good  
Finance Director and Secretary  
28 July 2003

A • B • E  
REPORT OF THE INDEPENDENT AUDITORS  
TO THE MEMBERS OF ASSOCIATED BRITISH ENGINEERING  
PLC

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We have audited the financial statements of Associated British Engineering plc for the year ended 31 March 2003 which comprise the principal accounting policies, the Group profit and loss account, the reconciliation of movements in shareholders' funds, the balance sheets, the Group cash flow statement and notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

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

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited 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 with the Group is not disclosed.

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 Service 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement, the unaudited part of the Remuneration report and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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REPORT OF THE INDEPENDENT AUDITORS  
TO THE MEMBERS OF ASSOCIATED BRITISH ENGINEERING  
PLC

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**Basis of opinion**

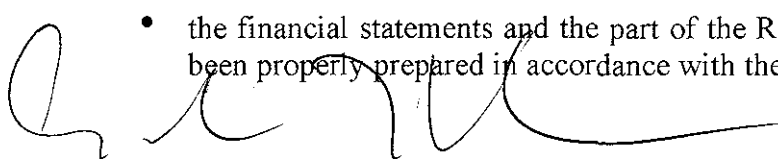
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. 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 Group'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 part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

**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 31 March 2003 and of the loss of the Group for the year then ended; and
- the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.



Grant Thornton

Registered Auditors

Chartered Accountants

OXFORD

28 July 2003

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C O R P O R A T E   G O V E R N A N C E

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The maintenance of effective corporate governance is a priority of the Board and shown below are details of how the Company has applied the Principles of Good Governance and Code of Best Practice (the Combined Code). The Board of directors considers that the company has complied throughout the year with section 1 of the Combined Code with the following exceptions:

- the Board has not conducted a review of the effectiveness of the Group's system of internal controls as required by provision D.2.1 of the Code. This is considered further under the heading of internal control on page 33;
- the non-executive directors of the Company have not been appointed for specific terms as required by provision A.6.1 of the Code;
- there is no formally appointed senior independent director. This is contrary to provision A.2.1;
- every director should receive appropriate training on the first occasion that he or she is appointed. There is no formal director training programme. This is contrary to provision A.1.6;
- there are only two non-executive directors and, therefore, the Group is unable to comply with provision D.3.1 which require the Board to establish an audit committee of at least three non-executives; and
- the non-executive directors are not independent within the definitions of the Code and therefore the company does not comply with Code provision A.3.2 or Code provision B.2.2.

In view of the size of the Company, the fact that there are two non-executive directors on each of the Audit and Remuneration committees and that the majority of the Board are non-executive directors, the Board considers that this representation is appropriate.

## **BOARD OF DIRECTORS**

The Board, which meets at least six times a year, currently comprises one executive, the Chairman and one non-executive director. The biographical details of the directors are set out on page 37.

The Board has directors who have between them considerable and varied experience in the business world and the City and the Board believes they are an effective independent body. Therefore a senior independent non-executive director has not been identified.

Details of the director's service contracts are set out in the Remuneration report on pages 34 to 36. Under the Company's articles of association, at least one third of the directors (including, for avoidance of doubt, the executive director) retire from office each year. A retiring director is eligible for re-election.

The Chairman is a non-executive director (although because the Board is small he does carry out certain limited specific executive responsibilities) and there is a clear division of responsibility between the Chairman and the finance director. The Board retains full and executive control of the Company and has a formal schedule of matters in respect of which decisions are reserved to it, covering key areas, including strategy formulation, acquisitions or disposals, approval of budgets, financial results, board appointments and proposals for dividend payments.

There is a formal procedure by which any director may take professional advice in connection with his duties, at the Company's expense.

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C O R P O R A T E G O V E R N A N C E

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**AUDIT, REMUNERATION AND NOMINATIONS COMMITTEES**

As appropriate, the Board has delegated certain responsibilities to committees of the Board which operate within clearly defined terms of reference. The standing committees of the Board are an Audit, Remuneration and a Nominations Committee whose membership consists of the two non-executive directors and are chaired by Mr D A H Brown. Minutes of these committee meetings are available to all Board members.

The Remuneration Committee, which comprises the two non-executive directors, meets at least once a year to decide the annual salary, bonus and benefits for the executive director and other senior executives of the Group. The Board as a whole determines the remuneration of the non-executive directors. A full report on remuneration policy and details of remuneration of each director can be found in the Remuneration report on pages 34 to 36.

The Audit Committee reviews internal controls and deals with accounting and financial reporting matters. It meets at least twice a year to review the annual and interim accounts before they are submitted to the Board. The Committee also monitors proposed changes in accounting policy and discusses the accounting implications of major transactions. The committee also ensures the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money.

The Nominations Committee brings to the Board recommendations for the appointment of any new director.

**RELATIONS WITH SHAREHOLDERS**

The chairman's statement in the Annual Report contains a business review. An interim business review is also provided with the half-year announcement. Shareholders are encouraged to contact the Company between General Meetings.

The Board seeks to ensure that its report and accounts and other financial statements provide a clear assessment of the Group's position.

## INTERNAL CONTROL

The directors are responsible for the Group's system of internal control. These controls can only provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use, that proper accounting records are maintained and that the information used internally, or for publication, is accurate and reliable. The key procedures, which exist to provide internal control, are as follows:

- The Group's organisational structure has clear lines of responsibility. Operating and financial responsibilities for the subsidiary company are delegated to the local Board and there are set limits which apply to capital expenditure and significant contracts.
- A regular review is undertaken to review and assess the risks facing the trading subsidiary and to enhance the systems, which manage the key risks, identified. Local management establishes control procedures for each of the risks identified and reports whether the key controls have operated effectively.
- The Group has set accounting policies and financial and accounting procedures. The Group Finance Director and Chairman review the monthly financial information of the subsidiary and attend regular Board meetings of the subsidiary. The Group budget is approved by the Board and is compiled from the individual operating company budgets. The Board reviews the Group's actual and forecast results at least once a quarter.
- The acquisition or disposal of a business may not be completed without the approval of the Board.

Through these mechanisms, Group performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Nevertheless, the Board considers that it is unable to state that it has fully complied during the year with the Code (D.2.1). The principle reasons for this are that the Board has not finalised the following:

- The definition of the process to be adopted for its review of the effectiveness of internal control, including seeking regular assurance that the system was functioning effectively.
- The receipt and review of formal reports on internal control.

The Board has considered the need for an internal audit function but has decided that the size of the Group does not justify it at present. However, the Board will keep the decision under annual review.

## GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Group and Company 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.

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R E M U N E R A T I O N R E P O R T

In accordance with Section 241A of the Companies Act 1985, the Board presents the Directors' Remuneration Report for shareholder approval.

The following report is not audited except where specified.

The Remuneration Committee is comprised exclusively of non-executive directors. They are as follows:

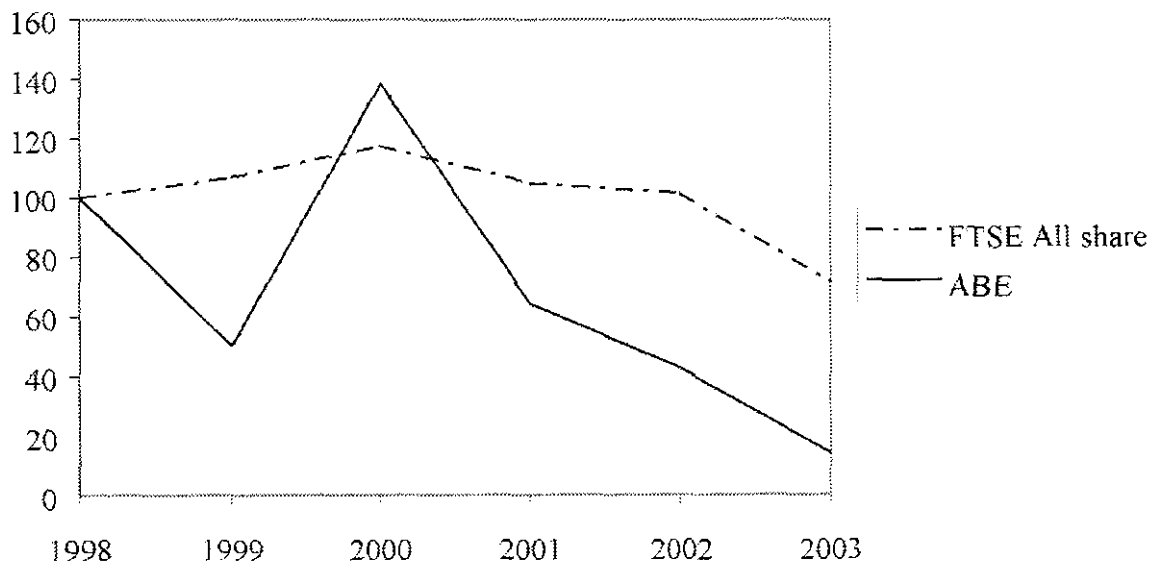
Mr D A H Brown  
Mr S J Cockburn

The Committee is satisfied that the Company has complied throughout the period with the Combined Code concerning the membership and operation of the Remuneration Committee and its remuneration policy except as noted above that the members of the Committee are not independent non-executives as required by the Code.

In setting the policy for executive directors and the Group's other senior management it considers a number of factors including:

- (a) the basic salaries and benefits available in comparable companies;
- (b) the need to attract and retain personnel of an appropriate calibre; and
- (c) the need to ensure individuals' commitment to the continued success of the Company by means of incentive schemes.

**Total Share Return (TSR)**



The graph above shows ABE's TSR performance compared to the FTSE All Share index over the past five years. TSR is defined as share price growth plus reinstated dividends. This provides a basis for comparison as a relevant equity index in which ABE is a constituent member.

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R E M U N E R A T I O N R E P O R T

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### **REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS**

The non-executive directors each receive a fee for their services, which is agreed by the Board after reviewing comparable organisations and appointments. None of the non-executive directors receive any pension or other benefits from the Company, nor do they participate in any of the bonus or incentive schemes or share option schemes.

The non-executive directors do not have service contracts with the Company. In accordance with the articles of association, each director (including, for avoidance of doubt the executive director) retires from office at the third annual general meeting after the annual general meeting at which he was last elected. A retiring director is eligible for re-election.

### **REMUNERATION POLICY FOR THE EXECUTIVE DIRECTOR**

The Company's remuneration policy for the executive director is to:

- (a) have regard to the director's experience and the nature and complexity of her work in order to pay a competitive salary and pension that attracts and retains management of the highest quality.
- (b) links her individual remuneration package to the Group's long-term performance through the award of share options and incentive schemes.

### **PERFORMANCE RELATED INCENTIVE PLAN**

The Board introduced a performance related incentive plan in 1998 for Mrs K M Good. Payments under the plans are related to the growth in profit before taxation. No payment has been made under this plan.

On 3 January 2001 the Company granted Cambridge Management Consultants Limited, which provided the services of Mr R A Pearce Gould, a long term incentive whereby it would receive either a fee equal to the difference between the average closing mid-market price of the Ordinary Shares for the previous five trading days and 200p multiplied by 40,000 or the right to subscribe for 40,000 shares at an exercise price of 200p per share. The benefits of this scheme were non-pensionable. This share option was exercisable until 6 months after Mr R A Pearce Gould ceased to be a director of the Company. As there is only one executive director, the chairman Mr R A Pearce Gould was charged with more responsibilities than would generally be expected of a non-executive. This incentive arrangement was primarily an additional fee linked to share performance with, if both parties agree, a share alternative and in the Board's opinion was the best way to provide an incentive to Mr Pearce Gould to maximize the return to shareholders. This arrangement lapsed on 11 May 2003.

### **CONTRACTS OF SERVICE**

Mrs K M Good has a contract of service with the Company which can be terminated with a notice period of one year by either party. The Company considers that this is appropriate for the finance director of the Company.

The committee reviews each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances.

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R E M U N E R A T I O N R E P O R T

**AUDITED INFORMATION**

**DIRECTORS' REMUNERATION**

	Salary and Fees £'000	Benefits £'000	2003 Total £'000	2002 Total £'000
Mr D A H Brown	25	-	25	10
Mr S J Cockburn	8	-	8	10
Mrs K M Good	66	14	80	77
Mr R A Pearce Gould	9	-	9	30
	108	14	122	127

Mrs K M Good is a member of the Group's defined benefit pension scheme (note 24). During the year her pension increased by £700 per annum to give her accumulated accrued benefits of £13,200 per annum at 31 March 2003. The transfer value of the increase is £600 net of her own contributions. Benefits transferred in from schemes relating to previous employments are payable in addition. This accrued pension entitlement is the amount that would be paid each year on retirement based on service to the end of the current year. The increase in the additional pension earned during the year excludes any increase for inflation.

No other director received any pension entitlements from the Group in respect of the years ended 31 March 2003 and 2002. No director waived emoluments in respect of the years ended 31 March 2003 and 2002.

**SHARE OPTIONS**

A share option scheme was introduced in 1989. Details of share options held by directors are set out below.

At the relevant dates (except where otherwise indicated) Mrs K M Good had the following options to subscribe for ordinary shares in the Company after a period of three years and within a period of ten years from date of grant:

At start and end of year	Exercise Price £	Date from which exercisable	Expiry date
1,000	8.50	11 July 1997	11 July 2004
1,500	2.00	6 January 2004	6 January 2011

None of the non-executive directors participates in the Company's share option scheme.

The exercise price is the market price at the date of issue of the options. No options lapsed, were granted to, or exercised by Mrs K M Good or members of her immediate family during the year. The market price of the Company's shares at 31 March 2003 was 42.5p and the equivalent range of market prices for the £2 ordinary shares during the year was between 37.5p and 132.5p.

D A H Brown  
On behalf of the Board  
Chairman of the Remuneration Committee

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D I R E C T O R S   A N D   A D V I S E R S

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DAVID BROWN (50) became a non-executive director on 22 March 2000 and became Chairman on 11 November 2002. He is the managing director of the Sabre Development Group, carrying out real estate development and financing focused on Russia. He has previously been a company secretary and director of two fully listed companies and general counsel on the Canary Wharf Development. He is a non-practising qualified solicitor.

STEPHEN COCKBURN (63) has been a non-executive director since 1979. He is Deputy Chairman of Fiske plc, a division of which, Ionian Investment Management, manages the investments in the Group's pension fund (see note 24). He is also Deputy Chairman of Archimedes Investment Trust plc, managing director of The Investment Company plc and a director of seven other listed Investment Trusts.

KIRSTEN GOOD (39) is a member of the Institute of Chartered Accountants in England and Wales and joined the Group in 1990. She became the Group's Finance Director in 1996.

**SECRETARY & REGISTERED OFFICE**

Mrs K M Good  
Associated British Engineering plc  
63 Church Street  
Harston  
Cambridge CB2 5NP  
Registered No. 110663  
Tel No: 01223 873600

**BANKERS**

The Royal Bank of Scotland plc

**AUDITORS**

Grant Thornton  
Oxford

**CORPORATE ADVISERS**

Nabarro Wells & Co. Limited  
London

**REGISTRARS**

Computershare Investor Services plc  
P.O. Box 435  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR

**SOLICITORS**

Ashurst Morris Crisp  
London

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NOTICE OF MEETING

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Notice is hereby given that the ninety-first Annual General Meeting of Associated British Engineering plc will be held at Grant Thornton, 1 Westminster Way, Oxford, OX2 0PZ on Tuesday 7 October 2003 at 11.30am for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and accounts for the year ended 31 March 2003 (Resolution 1).
2. To re-elect Mr S J Cockburn as a director following retirement by rotation in accordance with the Company's articles of association (Resolution 2).
3. To re-appoint Grant Thornton as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors (Resolution 3).
4. In accordance with the Companies Act 1985 s241A(3) to approve on an advisory basis the Remuneration report contained in the annual report including the Company's remuneration policy for directors and the level of directors' remuneration disclosed therein (Resolution 4).

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution of the Company:

5. That the directors of the Company be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of section 94 (2) of the Companies Act 1985) for cash pursuant to authority conferred by Resolution 4 which was set out in the notice of the annual general meeting of the company convened for 1 September 1999 and passed at such meeting as if Section 89 (1) of the Companies Act 1985 did not apply to such allotment, provided that this authority shall: -
  - (a) expire on the later of 1 December 2004 or the conclusion of the annual general meeting of the Company next following this meeting save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of any such offer or agreement as if this authority had not expired; and
  - (b) be limited to the allotment of equity securities:-
    - (i) in connection with a rights issue in favour of the holders of ordinary shares in the capital of the Company on the relevant register on a fixed record date in proportion (as nearly as practicable) to their respective holdings and/or rights subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws, or the requirements of any recognised regulatory body or stock exchange, of any territory; and
    - (ii) (otherwise than pursuant to (i) above) up to an aggregate nominal amount not exceeding £262,684 (Resolution 5).

By order of the Board  
K M Good  
Finance Director and Secretary

A • B • E  
NOTICE OF MEETING

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Each holder of ordinary shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present in person or by proxy, has 200 votes for every ordinary share held by him.

Each holder of 7 per cent cumulative preference shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present or by proxy, has four votes for every 7 per cent cumulative preference share held by him.

Each holder of 8 per cent cumulative redeemable preference shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present or by proxy, has 50 votes for every 8 per cent cumulative redeemable preference share held by him.

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him; a proxy need not also be a member. Proxy forms to be effective at the meeting must be deposited at the offices of the Company's registrars, Computershare Investor Services plc, P.O. Box 1075, BRISTOL BS99 3ZZ not later than 48 hours before the time fixed for the meeting. Appointment of a proxy will not preclude a member from attending and voting in person at the annual general meeting.

The register of directors' shareholdings and transactions will be available for inspection at the registered office of the Company from the date hereof until the date of the annual general meeting during usual business hours and at the place of the annual general meeting for fifteen minutes prior to and during the annual general meeting. The directors' service contracts are also available for inspection at the registered office of the Company at all times.

Pursuant to regulation 41 of the Uncertificated Securities Regulations 1995, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of holders of the ordinary shares of the Company by close of business on Sunday 5 October 2003. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

#### EXPLANATORY NOTES

Resolution 5: Your directors also require additional authority from shareholders to allot shares or grant rights over shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The authority granted at the last annual general meeting is due to expire on 1 December 2003. Accordingly, Resolution 4 will be proposed as a special resolution to grant such authority. Apart from a rights issue, the authority will be limited to the issue of shares up to an aggregate nominal value of £262,684 (being ten per cent of the issued ordinary share capital at 31 March 2003). If given, this authority will expire on the later of 1 December 2004 or at the conclusion of the annual general meeting in 2004.