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RICARDO

ANNUAL REPORT AND ACCOUNTS 1996

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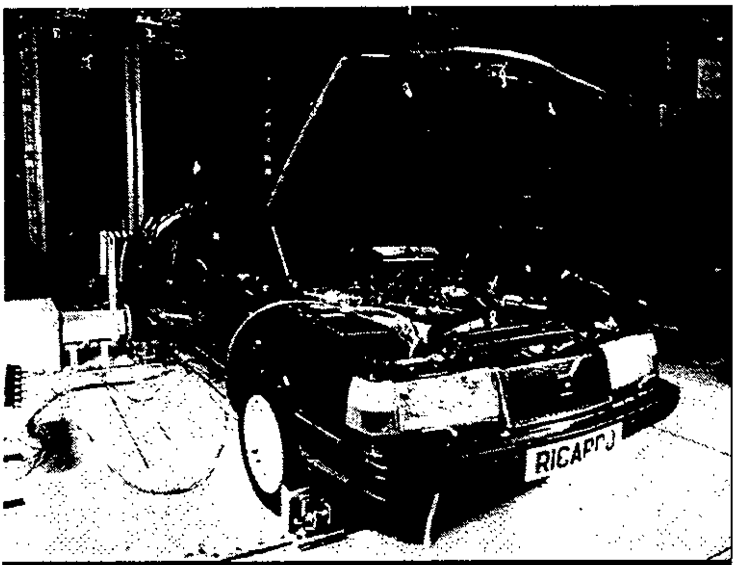


cise monitoring of noise in Ricardo's £1M acoustic test facility at Shoreham.

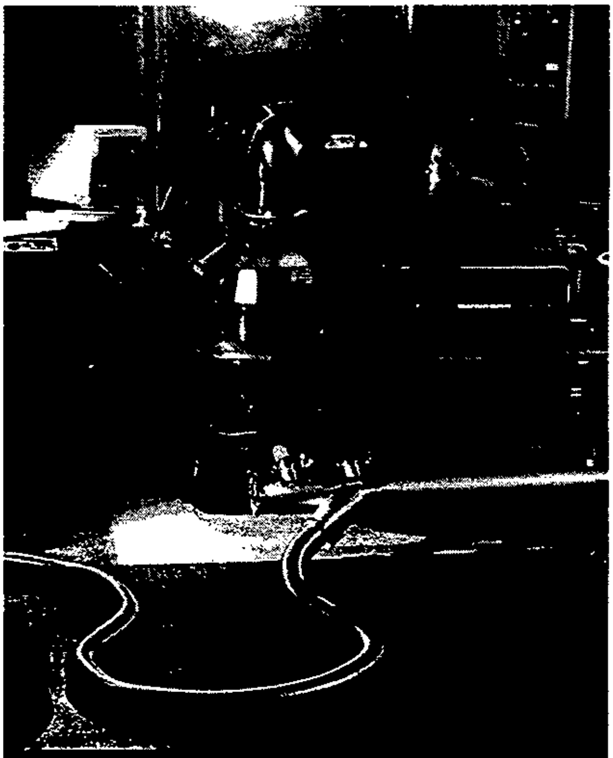
What drives Ricardo

The last five years have seen remarkable growth in Ricardo Automotive's turnover at a time when the global motor industry has at its best been flat.
This growth has not come about by chance, but as a result of clear strategic thinking that has identified key growth areas for expansion. Two of the most significant of these have been emissions control and vehicle refinement.

Ricardo's CERES project diesel car on the rolling road in the Emissions Laboratory, Shoreham

Controlling Emissions

Vehicle emissions is an emotive topic and one clouded with much inaccurate information. Clearly good air quality is not just desirable, it is essential. This is the challenge that has faced the vehicle manufacturers since the mid 1960s, when the first emissions legislation came into force in California and virtually the entire world has followed the American lead. Over the last fifteen years legislation has become increasingly demanding and emissions levels from both petrol and diesel engined vehicles have been reduced by an order of magnitude in line with these new requirements. With the Government's recent commitment to improving urban air quality, vehicle emissions are once again firmly in the spotlight.



Collecting exhaust emissions for analysis during an EC test cycle, Shoreham.

The mid 1970s saw the introduction of catalytic converters and electronic engine management systems into the US market and Western Europe followed suit in the early 1990s. Ricardo understood that the demand for 'greener' vehicles was going to put tremendous strains on the manufacturers, compelled to comply with increasingly tough emissions legislation. Ricardo's own internally funded research programmes were aimed at improving existing engine technology and devising new techniques for reducing emissions. Already acknowledged as world leaders in engine design and development, Ricardo has developed a number of new emissions control techniques. The introduction of one of these resulted in Ricardo being presented with the 1993 Queen's Award for Environmental Achievement in recognition of this breakthrough in clean engine technology.

In contrast to petrol engines, diesel engines for passenger cars and light commercial vehicles are a relatively immature technology, having existed for only half the time that petrol engines have been under development. Nevertheless dramatic reductions in emissions have taken place over the last two decades as diesel cars have become increasingly popular, particularly in Europe.

The engines found in European trucks and buses are almost exclusively direct injection diesels. Over the years most of the development work undertaken has been directed towards improving fuel economy and reliability. It is only since the mid 1980s that significant attention has been paid to levels of exhaust emissions, with the introduction of the first European truck emissions legislation in 1988.


Noise reduction work in one of Ricardo's six anechoic engine test cells, Shoreham.

Looking towards the future, manufacturers are already well advanced in engineering vehicles complying with America's ULEV (Ultra Low Emissions Vehicle) and European Stage 3 Emissions Standards that come into force at the turn of the century. Ricardo has demonstrated that it will be possible to meet the levels proposed in spite of the considerable engineering challenges involved in reaching that position.

Future legislation is likely to demand that emissions levels are restricted during the entire drive cycle - from starting up, through urban driving and onto motorway speeds. For petrol engined cars the major problem is the first few seconds of driving, when emissions are at a maximum due to the engine being cold and the catalyst not being at its operating temperature. The proposed solutions concentrate on more sophisticated catalyst technology, coupled with advanced electronic engine management systems. By contrast, emissions reduction in diesel engines will focus more on engine technology and the development of advanced fuel injection equipment. In the passenger car market, the use of direct injection diesels will increase rapidly and Ricardo is well placed to take advantage of these trends. Ricardo's own advanced passenger car project codenamed CERES, has already demonstrated emissions levels within the limits expected by the year 2000.

Direct injection petrol engines are starting to enter the marketplace with Mitsubishi and Toyota leading the way. Petrol direct injection offers the prospect of fuel economy on a par with today's diesels, with the power of more conventional petrol engines. However, there are emissions hurdles to be overcome which depend upon the development of new catalysts. Ricardo has been conducting work on petrol direct injection for a number of years and is expecting a considerable amount of interest in this new technology.

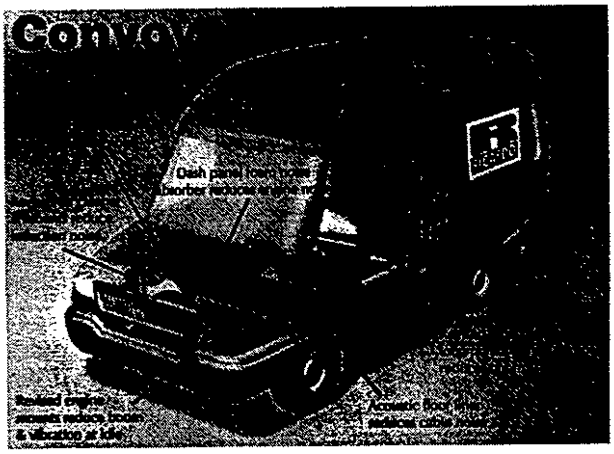
There has been considerable speculation about the importance of alternative fuels and power sources in the future. Electric vehicles give zero emissions, however this just transfers the emissions problems to the electricity generators. It seems likely that these alternatives will remain of marginal importance, even if zero emissions legislation, such as that proposed in California, becomes more widespread. But, whatever the legislation, the position of diesel and petrol engines seems assured well into the next century.

Working towards reducing emissions not only benefits everyone as air quality improves, it also makes sound business sense for Ricardo. Manufacturers must produce engines that achieve the emissions standards if they are to sell their vehicles. So even when sales are in decline they must still improve existing engines and introduce new designs in line with legislation. The high technological content means this work has high added value and is also largely independent of economic conditions, and part of the reason why Ricardo Automotive has expanded so impressively.

'Ricardo has already demonstrated emissions levels within the limits expected by the year 2000'

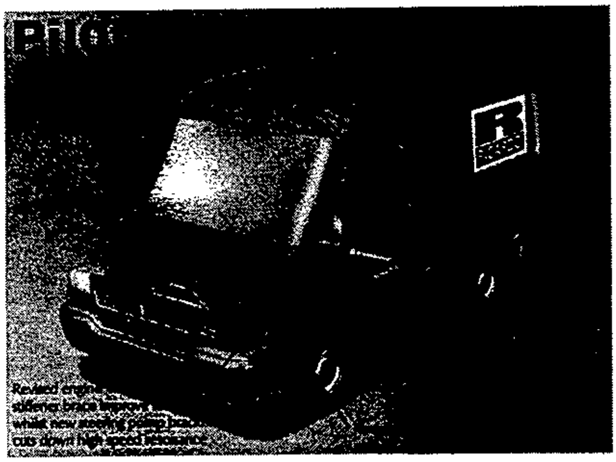
Refinement: A Quiet Revolution

Refinement measures designed by Ricardo for the new LDV Convoy van.



Few advertisements for new cars try to convince the prospective purchaser how low their emissions are. Compliance with legislation is assumed, since the vehicles could not be sold if this were not the case. Refinement, or noise, vibration and harshness (NVH) is a different matter. Advertisements claiming the ultimate in refinement for a particular model are now commonplace. Indeed if the advertisers are to be believed, the noise made by a falling pin is deafening in comparison with the sound of some cars passing by. This was certainly not the case a decade ago. Then it was only the owners of expensive luxury cars that expected their vehicle to be quiet and vibration free.

'So what has happened to bring about this change in buyers' expectations ?'



The LDV Pilot also received major refinement modifications

The introduction of the Lexus in 1989, with its exceptional levels of refinement, led the trend towards a more analytical approach to noise and vibration. This has filtered down to the most humble small cars. Even vans and trucks, long considered crude and noisy, now offer refinement as a key selling feature. In addition, vehicle noise legislation has become increasingly demanding, as efforts are made by governments to reduce the impact of traffic noise on the environment. Ricardo realised the importance of these changes and has developed an analytical approach towards refinement. To minimise noise and vibration, detailed knowledge of their sources within the vehicle is required. This is achieved using computer-aided measurement and analysis techniques. Ricardo's own computer based simulations allow the effects of fundamental engine and vehicle design changes to be evaluated without the need for costly and time consuming modifications to test vehicles.

'Reaching exceptional levels of refinement.'

Engineering Sound Quality

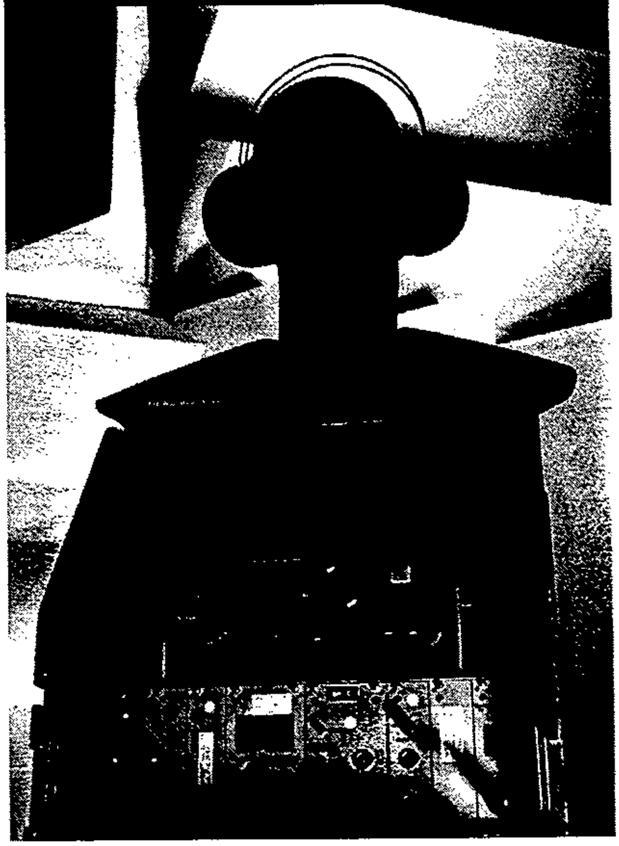
Market research has shown that the 'quality' of a vehicle's sound is as important as the vehicle's look and feel in conveying an image to the driver. Who would want to drive a sports car that sounded like just another family saloon ? The need to engineer a sound quality that matches the desired vehicle image is therefore strongly consumer driven.

Ricardo is often called upon to benchmark the sound quality of class-leading designs, defining the current 'state of the art'. This provides a standard against which a new design can be compared. In the past, modifications were made to vehicles at the prototype stage to obtain a suitable quality of sound. In today's increasingly competitive market it is now necessary to 'design-in' an appropriate acoustic environment in the very early stages of the design.

The picture is complicated by other changes that have taken place in recent years. To improve fuel economy, vehicle weights are being reduced by the introduction of innovative materials and design; in many cases these introduce undesirable vibrations. In the search for efficiency, gearboxes now have reduced levels of friction due to improved bearings and lubrication. This, coupled with the use of lightweight alloy components, causes further refinement problems for the engineers.

At the initial design concept stage, computer-aided engineering tools model the noise and vibration produced by the engine and vehicle. This simultaneous engineering approach, with design and refinement engineers working in parallel, gives early feedback about a design's sound quality.

State of the art recording equipment is used to assess sound quality.



In the future, legislation is certain to require even lower vehicle exterior noise levels, while customers will demand even higher standards of comfort within the vehicle. The challenge will be to meet these demands despite the introduction of fundamentally noisier engine technologies. Ricardo has been both instrumental in powertrain and vehicle refinement for many years, investing substantially in both research and facilities, and is well placed to meet this challenge.

SUMMARY

Over the last few years Ricardo has paid particular attention to developing a clear business strategy. Using its detailed knowledge of the automotive industry worldwide it has been able to identify, at an early stage, key issues such as emissions and noise legislation as well as consumer demand for vehicle refinement.

By investing its own money ahead of time in these key areas it has been able to establish a lead over its competitors and thereby achieve substantial organic growth of its business. The legislative demand for cleaner and quieter vehicles coupled with the consumer led demand for ever increasing refinement show no sign of early abatement. It is likely that these pressures on the automotive industry will continue for many years to come.

Introduction

The underlying strength of your Group's core activities in the automotive sector has once again shone through strongly in a year that provided tough challenges. Significant organic growth in the UK from Ricardo Consulting Engineers, FFD-Ricardo and the newly acquired Ricardo Test Automation all bear witness to the success that has been achieved. The improved second half-year performance by Ricardo Design was also highly creditable, enabling it to finish the year with a cumulative profit.

The Group's activities in the US have experienced mixed fortunes. The cyclical US truck market has seen a sharp decline in demand which impacted heavily on the work carried out in Chicago for US diesel engine manufacturers. The expansion in Detroit has experienced difficulties in setting-up complex assembly facilities for transmissions and commissioning revamped test cells. These problems are receiving detailed management attention.

The growth of Ricardo's automotive activities resulted in a 25 per cent. increase in turnover from £58.6 million last year to £73.1 million this year. Adjusting for the effect of acquisitions, the like-for-like automotive turnover growth was 17 per cent. Despite losses in the US, overall gross margins for the automotive activities were stable. Encouragingly, year end order books for the automotive businesses were higher than at the end of the previous financial year.

After a disappointing start to the year, Ricardo Design recovered well and lifted turnover by 5 per cent. from £27.3 million to £28.6 million. As a result of the first half losses the Design activities did suffer some erosion of gross margin over the year as a whole. However Ricardo Design showed a strong recovery in the second half in turnover, profit and order input and finished the year with order books over 60 per cent. up on the previous year.

Group Strategy

Ricardo remains firmly focused on reinforcing the core strengths of the Group. These now span emissions and fuel economy; noise vibration and harshness; vehicle and chassis engineering; powertrains; transmissions; test automation; and product design. Increasingly, clients are requiring an integrated approach involving two or more of these disciplines. To service these and other needs in the years ahead Ricardo will continue to broaden its technical offering, but only in those areas where the company is technically comfortable and is confident of providing substantial added-value.

Through a sustained programme of commercially-orientated research and development work, Ricardo has continued to provide high added-value technical expertise for major automotive groups. As discussed on page 2 of this report under the heading "What Drives Ricardo", the pressures on the automotive industry to innovate and achieve ever-more demanding technical standards are intensifying, leading to a growing demand for Ricardo's services.

Financial Results and Dividends

Profits for the year, before an exceptional item of £0.9 million, were £5.6 million compared with £6.2 million last year after charging internally funded research and development of £3.2 million in comparison with £2.5 million last year. Turnover increased to £101.7 million from £85.9 million. Capital investment relates mainly to improved test facilities and computers in both the UK and US, and increased this year to £8.7 million from £5.9 million in 1995. Cash outflow of £5.2 million and year end gearing of 24.2 per cent. were directly related to these acquisitions and other capital expenditure.

Your Board is recommending an unchanged final dividend of 4.3p net per ordinary share; the total dividend for the year will thus be 6.3p per ordinary share (1995 – 6.3p). Cover on the proposed dividend, after adjusting for the exceptional item, is 1.2 times (1995 – 1.4 times).

Acquisitions and Disposal

In October 1995 the Group acquired the entire issued share capital of Test Automation for a total consideration of £2.81 million, of which £1.39 million was paid in cash and the remainder by the issue of 920,535 ordinary shares.

The company, now renamed Ricardo Test Automation, specialises in the equipping of engine test cells through the design of integrated systems and the manufacture of the necessary hardware. This acquisition has brought together the broad experience of Ricardo in the operation of test cells with the computer and systems expertise of Ricardo Test Automation. The linking of these respective strengths will enable Ricardo Test Automation to offer more effective and credible products to the worldwide test cell market. This investment could be summed-up as a vertical integration of the Group's test cell capability.

Also in October 1995, the Group acquired the majority of the assets of Intermotive Technologies, Inc. for a cash consideration of £2.94 million. Intermotive was a subsidiary of InterMet Corporation and is based in Detroit. The assets acquired have provided Ricardo with additional test facilities.

Airflow Sciences Corporation (ASC) purchased in March 1994, has made a major contribution to the strengthening of the Group's capability in computational fluid dynamics. However, the majority of this company's order book was associated with the reduction of emissions in power stations in the US. The recent deregulation of the power utility industry in the US and the softening of the Green political lobby has resulted in far less effort and investment by that industry in the reduction of power station emissions. As this change in the marketplace was having a serious effect on the financial performance of ASC, the opportunity was taken in June 1996 to retain the automotive activities of ASC but to sell the power utility and food industry interests back to the management for a satisfactory consideration. The automotive activities of ASC have now been successfully integrated into Ricardo, Inc.

People

It is well recognised that your Group's main assets are the highly qualified and experienced people employed by Ricardo. With this in mind, we have collaborated with the research arm of Fiat who have been conducting a study within Europe into the best practice associated with the selection, training and development of highly qualified technical staff. I am pleased to report that Ricardo Consulting Engineers was placed in the top six amongst such names as Hewlett Packard, IBM and Motorola. All staff deserve commendation and gratitude for their unstinting efforts during the past year.

Property

During the year one further surplus property was sold and the vacated office building at Chipping Sodbury was fully let.

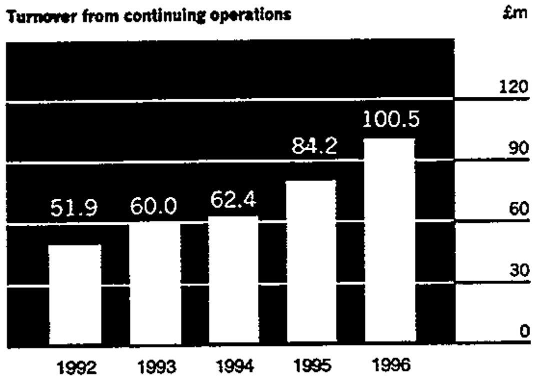
Prospects

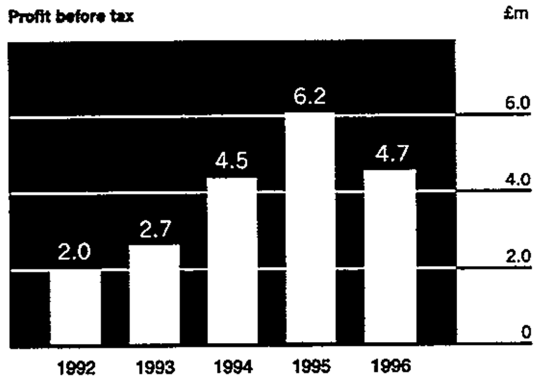
Despite the cyclical nature of the US marketplace and the difficulties experienced with the Group's development in Detroit, the automotive activities of the Group have finished the year with greater momentum. This is reflected in the appreciably higher turnover and the satisfactory order books secured at the year end.

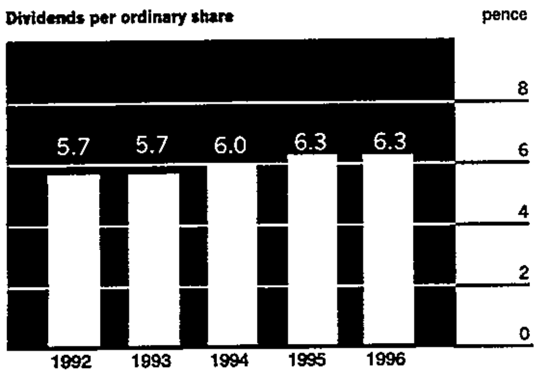
These trends are also repeated in Ricardo Design which has seen profitable trading in the last six months and an improvement of over 60 per cent. in the order books over the last twelve months.

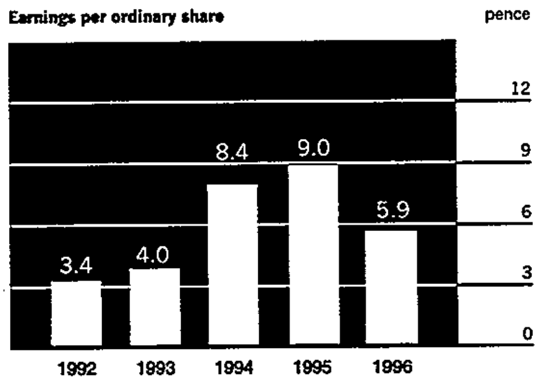
Looking to the future, your Board believes that notwithstanding the challenges faced in the US, the Group as a whole is set to continue making steady progress.

Sir Philip Foreman









FIVE YEAR PERFORMANCE RECORD

	1996 £'000	1995 £'000	1994 £'000	1993 £'000	1992 Restated (FRS3) £'000
Turnover	**101,728**	85,861	62,917	65,588	57,642
Turnover from Continuing Operations	**100,484**	84,212	62,440	59,999	51,936
Profit before taxation	**4,699**	6,161	4,457	2,675	2,039
Operating profit after interest excluding exceptional items	**5,569**	6,161	4,457	3,642	2,001
Profit after tax	**2,654**	4,004	2,867	1,337	1,154
Profit after tax excluding exceptional items	**3,524**	4,004	2,867	2,304	1,116
Shareholders' Funds	**27,900**	27,750	26,136	21,893	21,961
Normalised earnings per ordinary share	**7.8p**	9.0p	8.4p	7.3p	3.5p
Earnings per ordinary share	**5.9p**	9.0p	8.4p	4.0p	3.4p
Dividend per ordinary share	**6.3p**	6.3p	6.0p	5.7p	5.7p

The earnings per ordinary share calculations for the years 1992 and 1993 have been adjusted to take account of the rights issue in June 1994.

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Ricardo Consulting Engineers

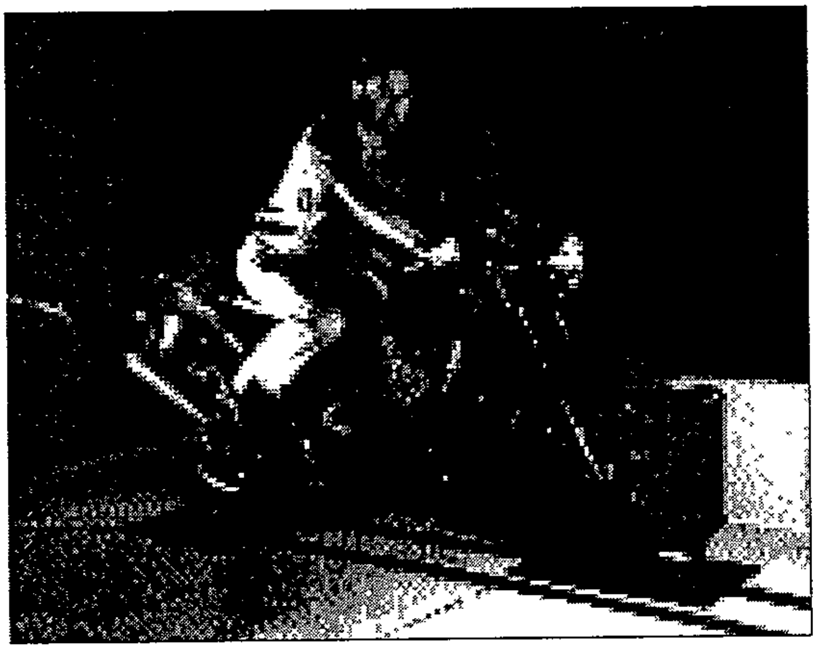
Ricardo Consulting Engineers (RCE) enjoyed its fifth consecutive year of strong turnover and profit growth, fuelled by an excellent order-winning performance. Major clients during the period under review included Ford and Fiat.
As ever, many other leading blue chip clients wished to retain confidentiality. The work load continued to be lead by emissions, noise, vibration and harshness (NVH) programmes.

Key projects for Ford included the development of the new diesel engine for the Fiesta car to comply with the latest emission standards. Ford has also recently acknowledged RCE's involvement in the development of its new generation of high-speed direct-injection diesel engines for its future ranges of cars and Transit vans.

The continued worldwide interest in diesel engines for passenger cars has given RCE the opportunity to win work from Fiat and a number of other major European and Far Eastern manufacturers.

RCE's leading position in the heavy-duty truck engine sector has been strengthened with significant investment in improved engine test facilities. In addition, an agreement has been reached with a European truck engine company to provide advanced research, design and development services over the next 5-10 years. In the industrial engine sector, the new turbocharged engine for Lister Petter was launched to favourable reviews. This engine features combustion system technology developed with RCE.

Ricardo Consulting Engineers carry out design and development work for many of the world's leading motorcycle manufacturers



Ricardo was chosen as LDV's development partner to improve refinement on their new range of vans.

Demand for noise, vibration and harshness (NVH) services continues at a high level. The recently introduced LDV van included more than sixty NVH improvements developed by RCE in a joint project with FFD-Ricardo. Activity in engine NVH has also increased, with RCE recently winning a major consortium project to compare the NVH characteristics of a number of new engines.

RCE has continued to build-up its capabilities in powertrain\vehicle integration, particularly in the area of vehicle emissions and powertrain control. A contract to lead the development of a new generation of electronic engine management systems has recently been won.

An initiative has been taken to re-establish RCE in the People's Republic of China. Two contracts have been completed, two are in progress and a number are in prospect. The principal areas of interest are motorcycles, passenger car engines and locomotive engine design.

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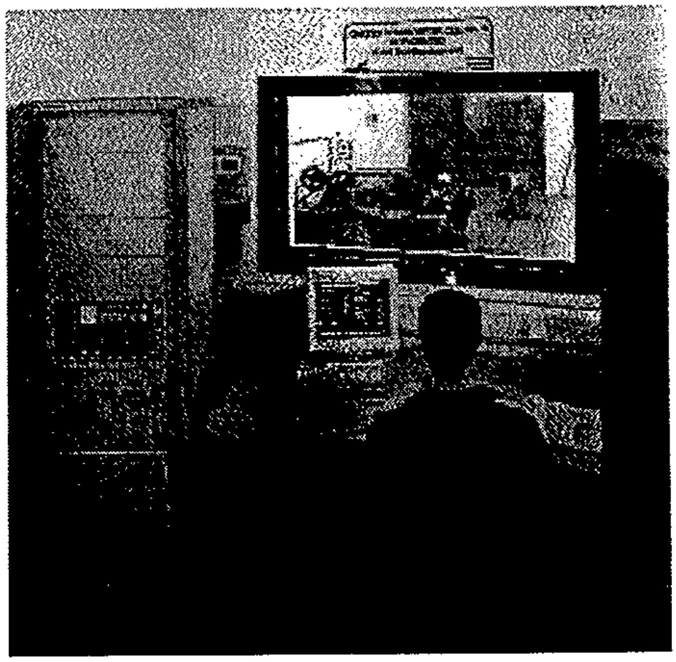
Ricardo Test Automation

In the first nine months since its acquisition Ricardo Test Automation (RTA) exceeded expectations in terms of profit, turnover and order intake. Perkins has remained an important client with RTA undertaking two large projects. Test cells have been supplied for large diesel engines. Further cells have been installed for testing Perkins' small three cylinder diesel engines. Another major project has been completed for Champion Spark Plug at its new European research centre.

One of 9 RTA cells at Champion's new facility. This vehicle cell is designed for cold testing down to -20° c



RTA's solution for transient testing at Arvin Exhausts, features a high speed, high power, fast response AC dynamometer.

Ricardo Special Vehicles

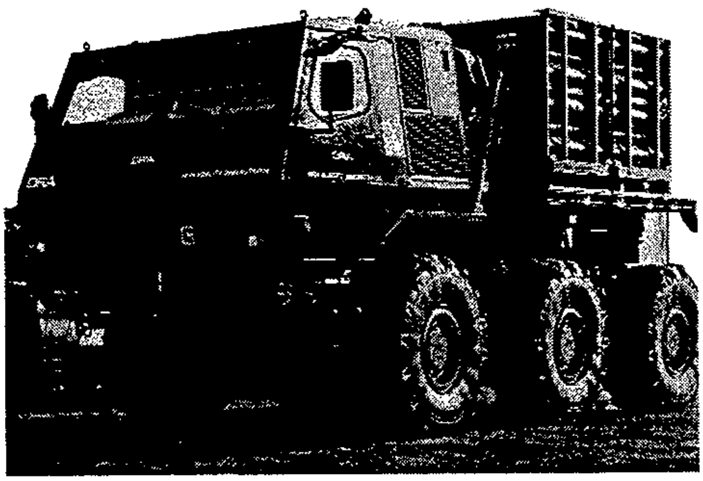
Ricardo Special Vehicles (RSV) has successfully completed a project to re-engine a locally-built car in Brazil and Argentina and is now involved in supporting the final launch phase of the vehicle. RSV has designed, developed and is manufacturing a small quantity of disabled person vehicles based on the Chrysler Voyager. As a result of the volume created by these and other vehicle projects, RSV has embarked on a programme of improving operational facilities and has more than doubled the space available for vehicle prototyping.

Continuing support has been provided to Land Rover in the form of demonstrator multi-role combat vehicles based on the Defender. A contract was completed for the Defence Research Agency involving the design and manufacture of a six-wheel high mobility load carrier.
This vehicle has been on display at military exhibitions and is now undergoing evaluation by the Ministry of Defence.

Ricardo Software

The Chicago and Shoreham based software teams have been brought together under a single management structure and now operate as Ricardo Software. This has already yielded significant advantages. The first International User Conference for clients of Ricardo Software was held in Detroit in March this year, attracting over 100 delegates from all parts of the world. Six of the seven technical papers discussed at this conference were presented by leading automotive clients including Volkswagen and Cummins.

The demonstration High Mobility Logistics Carrier has been built by RSV for the Defence Research Agency. RSV carried out detailed design work on the vehicle which is undergoing trials by the Ministry of Defence.



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FFD-Ricardo

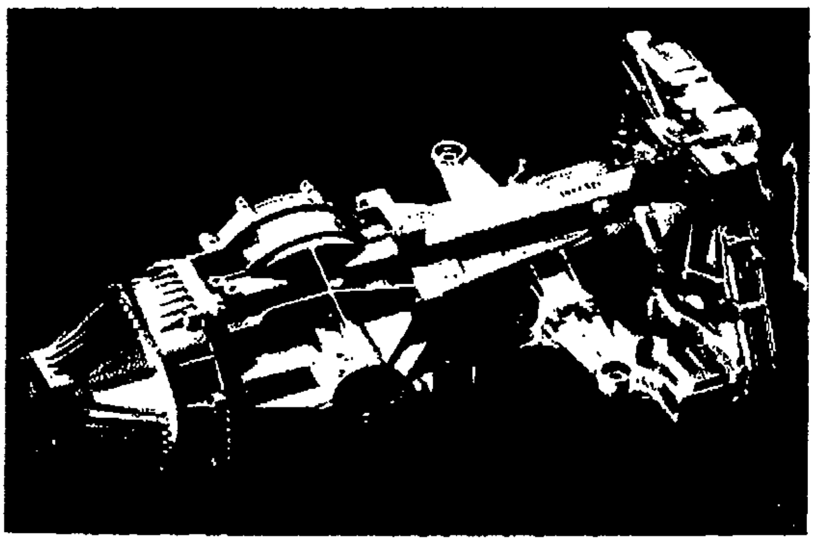
UK based FFD-Ricardo had another extremely successful year. The customer base was broadened; turnover and profitability showed significant improvements over the previous year. The area showing most growth was vehicle and chassis engineering; where a wide variety of contracts was completed for both new and established customers. The design and build of a high performance luxury car was completed and is now in production. In conjunction with Ricardo Consulting Engineers, the company has also completed the installation of a diesel engine into a saloon car for a major European manufacturer. Suspension, ride and handling projects have also provided part of the increased workload.

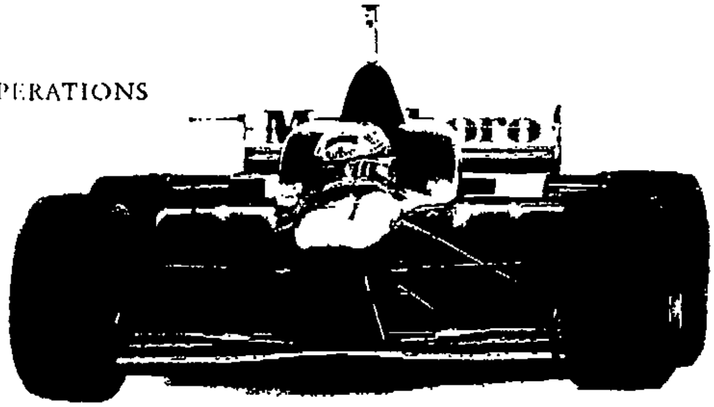
Transmission engineering remained a core activity and now spans an in-house capability from motor-scooters to earth moving equipment. Facilities have been expanded to cope with large transmission projects.

Motor sport remains a vital and high profile part of the business. Ford, who have been contesting the 1996 World Rally Championship, have relied on FFD-Ricardo for the supply of seven-speed transmissions for their Escort Cosworth cars. These vehicles are also fitted with electronically controlled differentials developed and supplied by FFD-Ricardo.

Renault has also been very competitive in its rally activities and this year launched their new Megane Maxi rally car. This uses an FFD-Ricardo manufactured seven speed transmission which is a development of the unit previously supplied to Renault for its rally version of the Clio.

Ricardo, Inc. is currently producing the F116 automatic transmission assembly with integral axle for the Ferrari 456GTA.





FFD-Ricardo technology has helped secure Grand Prix victories for World Champion Michael Schumacher.

Another traction device developed by the Company is the linking of drive wheels using viscous differentials. Formula 1 and Indy Car Racing teams have used FFD-Ricardo viscous differential technology with great success. The world champion, Michael Schumacher driving for Ferrari, won the Spanish and Belgian Grand Prix in a car fitted with a FFD-Ricardo viscous differential. The same differentials are also fitted in the Jordan Formula 1 cars and the Newman Haas Indy Car driven by Michael Andretti.

FFD-Ricardo remains responsible for the development and marketing of the Ricardo Differential. This year has seen the delivery of prototypes to potential licensees for evaluation. FFD-Ricardo's strategy is to await reaction from potential licensees before committing any further funding.

Ricardo, Inc.

Following the acquisition of the assets of Intermotive Technologies, Inc. in October last year, the opportunity was taken to combine the US engine, transmission and vehicle activities of Ricardo under one trading company; Ricardo, Inc. This has enabled one management organisation to be created out of the previously disparate parts of the Group's activities in Detroit. Soundings were taken from key customers who all commented on the need for Ricardo to have critical mass in this large marketplace. Thus the various Detroit-based activities; engine test cells, vehicle and chassis engineering, transmission engineering, airflow technology and people resource activities now have a single identity and sales force.

Light duty trucks or pick-ups as they are known in Europe, represent the highest volume sales for the major manufacturers in the US marketplace. In the course of the year, Ricardo, Inc. has undertaken a significant amount of work on engine and transmission work for this type of vehicle. In addition, the export of such vehicles from the US has involved chassis engineering projects and the redesign of cooling/climate control systems.

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Ricardo, Inc. (continued)
Ricardo, Inc. has been awarded a concept development contract for a clean, light-weight engine from a consortium formed in the US between GM, Ford, Chrysler, the Environmental Protection Agency and the US National Laboratories. This consortium is called the Partnership for Next Generation Vehicle (PNGV) and is aimed at developing advanced automotive technologies to reduce fuel consumption, emissions and the use of other natural resources. This project will call on Ricardo's experience with high speed direct injection diesel engines and advanced materials technology.

The transmissions engineering activity in Detroit is now engaged in two high profile projects. In the Spring of this year, Ferrari announced an automatic version of their 456 V12 sports car. This uses a four speed automatic transmission which was designed and is now supplied by Ricardo, Inc. from Detroit. Production is currently running at ten units per week. Ricardo will also supply transmission parts for Chrysler's new niche vehicle, the Plymouth Prowler. Production is planned to start in late 1996.

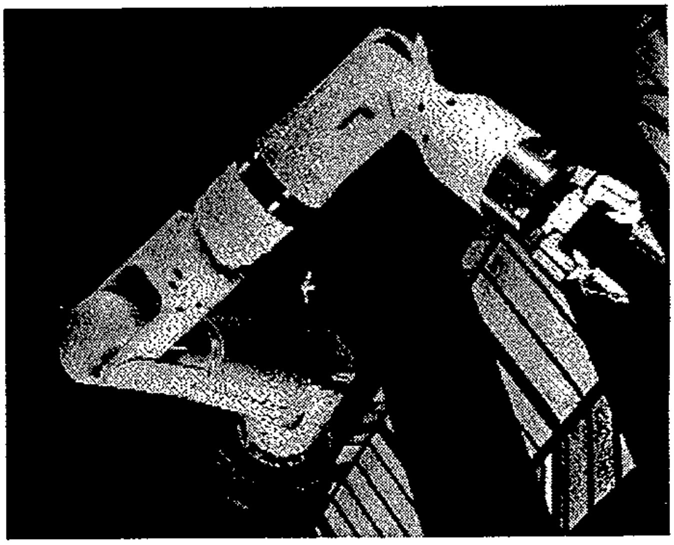
Ricardo, Inc. is the production supplier for driveline components for the Plymouth Prowler.

Ricardo Design

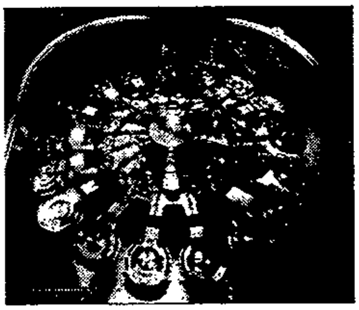
The aerospace and nuclear design activities were brought together under one management team at the start of the financial year and re-designated Ricardo Design. Faced with difficult market conditions in the first half of the year, the opportunity was taken to reduce overheads. Aerospace activities previously based in large facilities at Chipping Sodbury were moved into the smaller former head office building in Bristol. The vacated premises were successfully re-let to South Gloucestershire County Council. In Preston, the aerospace and nuclear activities previously occupied two freehold properties. These activities were consolidated into one while the other property was sold.

These sizeable overhead reductions and improved market conditions in the second half-year, enabled the Ricardo Design business to recover its first half-year losses and finish the year with a cumulative profit.
The major aero design contracts undertaken during the year have been on behalf of BMW\Rolls Royce and have involved a team of 100 Ricardo engineers working in Berlin. Gas turbine technology has also been applied to the design of manufacturing equipment for producing silicon wafers on behalf of an American electronics manufacturer. Several aero structures contracts have been completed during the year for different clients in the Far East and Indonesia.

Heavy Duty Manipulator- Aerospace Technology Transfer using special purpose materials to provide extreme load / size capability. Developed in partnership with BNFL Engineering Ltd.



In the nuclear engineering sector, a self funded research project, for the design and development of a robot mechanical arm is now bearing fruit. The product is aimed at the market for remote de-commissioning of nuclear facilities. A long term collaboration agreement has been signed with British Nuclear Fuels Ltd for the exploitation of this device on a shared basis. A partnership has been formed with a Swedish company jointly to develop software for capital plant maintenance management. The first application of this new software has been sold to North West Water, part of United Utilities, to assist it in the co-ordination of its maintenance programmes across all of its water facilities.



Semi-conductor Processing - High speed machine designed for ion implantation of silicon wafers, using aero-engine technology to provide improved performance characteristics.

(Reproduced by kind permission of Applied Materials Technology, Inc.)

The Directors present their report and the accounts for the year ended 30 June 1996.

Business Activity

The principal activities of the Group remained the provision of engineering and technological services to industry, commerce and other agencies. A review of the Group's operations and future prospects, and of its research and development activities, is covered in the Review of Operations. A geographical turnover analysis is given in note 2 to the Financial Statements.

Dividends and transfer from reserves

The Directors propose a final dividend of 4.3p net per share, amounting to £1,958,000 payable on 29 November 1996 to ordinary shareholders on the register on 15 October 1996. The final dividend proposed will make a total of 6.3p net per share for the year. £249,000 has been transferred from reserves.

Donations

During the year, the Group made donations to charity totalling £4,357. There were no political donations.

Directors

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

*Sir Philip Foreman, CBE, DLC, FEng, Hon FRAeS, FIMechE, FRSA, CBIM, DL	– Chairman
*H. Metcalfe, OBE, Hon DSc, Hon DEng, ARCS, FEng, FRAeS (retired 3 November 1995)	– Deputy Chairman
C. G. Ross, FEng, BSc, FIMechE	– Chief Executive
*C. W. Foreman, CA	– Director
R. J. Westhead FCA	– Finance Director

*Non-Executive

Dr. Metcalfe retired from the Board at the conclusion of the Annual General Meeting on 3 November 1995. Until then he had served on both the Audit Committee and the Remuneration Committee during the year.

Mr. C. W. Foreman was appointed Deputy Chairman of the Board on 8 March 1996.

Board Committees

Audit: C. W. Foreman (Chairman); Sir Philip Foreman

Remuneration: Sir Philip Foreman (Chairman); C. W. Foreman

Remuneration Committee

The report of the Remuneration Committee appears separately on pages 20 to 22.

Biographical Details – Non Executive Directors

Sir Philip Foreman, joined the Board of Ricardo Group plc as a non-executive Director in June 1988 and was appointed Chairman of the Board in June 1992. He joined Short Brothers in 1958, becoming Managing Director in 1967 and also Chairman in 1983 until he retired from the Company in 1988. He is Chairman of the Progressive Building Society, President of the British Standards Institution and a member of the Senate of Queen's University, Belfast. He is a past President of the Institution of Mechanical Engineers.

C. W. Foreman had, until he opted for early retirement in 1991, been Commercial Director of Vickers P.L.C. for nine years having joined the Vickers Board in 1973 as Director of Finance. He is a non-executive director of several other companies including Chloride Group PLC, and FirstBus plc.

Retirement and Contracts

In accordance with paragraphs 85(1) and (2) of the Company's Articles of Association, Mr. C. W. Foreman retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. His re-election is recommended by the Board.

Sir Philip Foreman has a two year contract which commenced on 1 January 1995, and Mr. C. W. Foreman has a two year contract which commenced on 1 January 1996.

The executive Directors' contracts are dealt with under the Remuneration Committee Report on pages 20 to 22.

There were no contracts of any significance, other than those referred to above, either subsisting during the year to or at 30 June 1996 in which a Director was or is materially interested.

Directors' interests

Directors' interests are dealt with in Note 8 on page 35.

Purchase of Own Shares

The existing Articles permit the Company to buy back its own shares with authority from its members. The Directors are seeking to renew such authority to buy back up to 10 per cent. of its issued shares, subject to the terms of a resolution to be put to the members at the Annual General Meeting.

Sections 80 and 95 Authority

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 nominal value of £3,519,000, equivalent to almost one third of the Company's current issued ordinary share capital.

The maximum number which may be allotted for cash, otherwise than pro-rata to existing shareholdings, would be 5 per cent. of the issued share capital. The Directors will then have flexibility for any suitable opportunities for expansion as and when they arise. 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 general meeting.

Employee Involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the Group continues and that the appropriate training is arranged. 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.

Ricardo currently operates two Inland Revenue approved share option schemes.

(i) an executive share option scheme established in 1994 ("the 1994 Executive Share Option"); and

(ii) a savings related share option scheme ("the ShareSave Scheme").

In addition there is an executive share option scheme ("the 1995 Executive Share Option"), designed to be operated using market puchased shares held in an Employee Share Ownership Plan ("ESOP") trust. The 1995 Executive Share Option is unapproved by the Inland Revenue and it is intended by the Directors that it will play an important role in enabling Ricardo to attract and retain high quality executives, particularly in the United States, who can only participate in the 1994 Executive Share Option to a limited extent because of restrictions imposed by statute.

The number of shares which can be held under the ESOP is limited to 5 per cent. 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 non-recourse, repayable on demand loan of up to £750,000 from Ricardo Group plc to the trustee. At 30 June 1996 £206,636 of this total had been loaned, and at that date the trustee of the Ricardo ESOP held 145,000 ordinary shares of 25p in Ricardo Group plc with a market value at 30 June 1996 of £195,750. The shares held attract a dividend of 0.01p per share.

The Directors believe that the 1995 Executive Share Option and the ESOP are in the best interests of the shareholders.

The Company, in conjunction with the Halifax Building Society, has set up a Single Company Personal Equity Plan. Any shareholder requiring information on this should contact:

Halifax Building Society Corporate Business Administration, Trinity Road, Halifax,
West Yorkshire, HX1 2RS

Substantial Shareholders

The Company is informed that, at 16 September 1996, the following are holders of more than 3 per cent. of the Company's issued ordinary share capital:

	% of Issued Share Capital	Number of Shares
M&G Group plc	14.76	6,743,545
Prudential Corporation plc	8.80	4,019,958
Hermes Administrative Services Limited	5.63	2,665,341
The Equitable Life Assurance Society	4.87	2,225,000
Scottish Amicable Nominees Limited	3.80	1,734,543
Mr. S. R. Rolt	3.10	1,418,182

Long Term Incentive Plan

The proposed introduction of a Long Term Incentive Plan is referred to in the Remuneration Committee Report on pages 20 to 22 and in the letter and circular being sent to shareholders with this report and financial statements.

ShareSave Option Scheme Rules

At the forthcoming Annual General Meeting a resolution will be proposed to make a number of amendments to the Ricardo Group plc 1989 Savings Related Share Option Scheme (the "ShareSave Scheme"). These amendments, which are designed to bring the ShareSave Scheme into line with current market practice, are in summary:

(a) an amendment to the definition of "Eligible Employee" to include part-timers on the same basis as full-timers;

(b) amendments to allow for the grant of 3-year options in addition to the existing 5-year and 7-year options;

(c) amendments to Rule 5 to provide a common retirement age of 65 for both men and women for the purposes of the ShareSave Scheme;

(d) amendments to increase flexibility by allowing options to be granted in relation to both existing and unissued shares;

(e) an amendment to Rule 2(b) to allow invitations to be issued during a 42-day period following the announcement of interim or annual results;

(f) an amendment to Rule 3(b)(i) to lower the minimum monthly savings contribution from £10 to £5;

(g) the insertion of a new Rule 5(b)(ii) to allow options to be exercised by employees who are transferred to non-participating subsidiaries and associated companies;

(h) the insertion of a new Rule 6 to reflect current institutional guidelines on the number of shares which can be issued under this type of "all-employee" scheme;

(i) an amendment to Rule 8(a) to the effect that if the Board considers it appropriate (and subject to receiving the approval of the Inland Revenue), options can be adjusted in the event of any variation in the issued share capital of the Company without the need for an auditor's certificate; and

(j) an amendment to Rule 10 to reflect new London Stock Exchange requirements, so that the Board may at any time alter or add to the ShareSave Scheme, except that the prior approval of the Company in general meeting must be obtained in case of any alteration or addition to the advantage of participants which is made to the provisions relating to eligibility, overall limits, maximum individual entitlement, the basis for determining such entitlement and the adjustment thereof following a variation in share capital, except for any minor alteration or addition to benefit administration of the ShareSave Scheme, to take account of any legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants of the Group.

Resolution 6 (Item 7) on page 48 below seeks the approval of shareholders for the above amendments to the ShareSave Scheme.

Articles of Association

At the forthcoming Annual General Meeting a special resolution will be proposed to adopt new Articles of Association in line with modern practice and the requirements of the London Stock Exchange. The principal changes which would be effected by the adoption of the new Articles of Association are as follows:—

1. The granting of authority to the Directors to allot shares and the disapplication of the statutory pre-emption rights will in future years be dealt with in the Articles, thereby enabling simpler resolutions on these matters to be tabled at future Annual General Meetings than has been the case in recent years.

2. The current Articles of Association specify a limit of £30,000 per annum on the fees for each non-executive director. The new Articles of Association impose an aggregate limit on the fees of non-executive directors of £150,000.

3. The current Articles of Association stipulate that only non-executive directors should retire by rotation each year. The new Articles of Association require all directors to retire by rotation each year.

4. The quorum for general meetings of shareholders of the Company will be reduced from three to two.

A copy of the proposed Articles of Association, together with a summary of the full terms of the proposed amendments, will be available for inspection, during usual business hours on any weekday, at the offices of the Company's lawyers, Clifford Chance, 200 Aldersgate Street, London EC1A 4JJ until the close of the Annual General Meeting and at Institution of Mechanical Engineers, 1 Birdcage Walk, London SW1 for fifteen minutes prior to the Annual General Meeting and during the meeting itself.

Auditors

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

Corporate Governance

The financial aspects of corporate governance including the Group's compliance with the Code of Best Practice, are considered on pages 24 and 25.

Other Information

The Company generally agrees terms and conditions with suppliers before business takes place, and its policy is to pay agreed invoices in accordance with those terms of payment.

In the opinion of the Directors, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

On behalf of the Board
R. J. Westhead
Director and Secretary
1 October 1996

The Company's Remuneration Committee during the year consisted of:

Sir Philip Foreman (Chairman)

Mr C. W. Foreman

Dr H. Metcalfe (retired 3 November 1995)

The Committee met twice during the year to 30 June 1996, and has met once since the year end.

Apart from their shareholdings in the Company and contracts with the Company (details of both of which are given in the Directors' Report) the non-executive directors have no personal financial interest in the company, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in the running of the business of the Company.

The Committee's overall policy for the Group is to ensure that pay levels are commensurate with levels of responsibilities and performance achieved, in relation to similar jobs in competitor companies. The policy provides for incentives to motivate people to remain with the company, to increase their capabilities and responsibilities and to achieve higher standards of performance.

In pursuance of those policies the Committee has recommended to the Board since the end of the year, and the Board has acted upon those recommendations, the introduction of a new Long Term Incentive Plan. Shareholders will be asked for their approval at the forthcoming Annual General Meeting to the adoption and introduction of this Plan, full details of which are given in the letter and circular being sent to shareholders with this report and financial statements.

The Committee is satisfied that its policy, and the implementation of that policy, generally meets the provisions set out in sections C and D of the Greenbury Committee's Code of Best Practice. The Remuneration Committee has always borne in mind the need to attract and retain in the Company the highest calibre of executive.

Executive Directors

1 Service Agreements

Mr Ross and Mr Westhead were employed during the year on two year rolling contracts, both effective from 19 September 1994. The principal matters covered by these contracts are:—

(i) the terms of the contracts with Mr Ross and Mr Westhead (subject to specific reasons for termination) are for an indefinite period but shall be terminable by the Company giving to the executive director two years' notice or by the executive director giving the Company not less than one year's notice.

(ii) The executive directors' salaries are subject to review as at 1 July each year. Each executive director is provided with a car together with medical and life assurance cover.

(iii) The group operates a performance related incentive bonus scheme which is related to achieving certain budgeted pre-tax profit level and growth year upon year in the earnings per share of the Company's ordinary shares.

(iv) Each executive director is a member of the Ricardo Group Pension Fund and is also a member of a Funded Unapproved Retirement Benefit Scheme ("FURBS"). Pension contributions include the contribution to the FURBS. The taxation element relating to these contributions is included on page 35.

The Committee is fully satisfied that in all the circumstances it was, and remains, necessary and acceptable for the agreements with each executive director to be for a period longer than one year. It is essential in the Committee's view that appropriately qualified senior personnel should, as already stated, not only be attracted to but also retained by the Company, to ensure stability and continuity in the management of the Company.

2 Share Options

Options Outstanding at 1 July 1995								
Date of Grant	May 1991	Nov 1991	Oct 1992	March 1993	Oct 1994	March 1995		Totals
Option Price	91.9p	106.1p	64.5p	110.0p	138.0p	140.0p		
No. of Shares								
C. G. Ross	105,492	21,098	116,041	—	100,000	100,000		442,631
R. J. Westhead	—	—	—	84.394	70,000	70,000		224,394
	105,492	21,098	116,041	84.394	170,000	170,000		667,025
Options Exercised in year ended 30 June 1996								
C. G. Ross								
Date of exercise	26 July 1995	26 July 1995						
Market Price on exercise	155p	155p						
No. of Shares	105,492	21,098	—	—	—	—		126,590
Options Granted in year ended 30 June 1996								
Date Granted							March 1996	
Option Price							114p	
No. of Shares								
C. G. Ross	—	—	—	—	—	—	180,000	180,000
R. J. Westhead	—	—	—	—	—	—	144,000	144,000
	—	—	—	—	—	—	324,000	324,000
Options outstanding at 30 June 1996								
C. G. Ross	—	—	116,041	—	100,000	100,000	180,000	496,041
R. J. Westhead	—	—	—	84.394	70,000	70,000	144,000	368,394
	—	—	116,041	84.394	170,000	170,000	324,000	864,435

Messrs Ross and Westhead's options are exercisable up to March 2006.

The Company entered into a Management Incentive Agreement with Mr Westhead on 22 June 1993 under which it will, in respect of each of the 84,394 shares contained in the option granted to him in March 1993, pay him at his option at any time between March 1996 and March 2003 the sum by which the Company's share price at the date of exercise of this option exceeds 64.4p per share, provided that the amount per share to be paid to Mr Westhead under this Agreement shall not exceed the difference between 64.4p per share and 109.9p. The maximum liability of the Company under this Agreement is accordingly £38,400.

The middle market price of the Company's ordinary shares on 30 June 1996 was 135p and the range in the year was 109p to 163p with an average price for the year of 139.2p.

3 Shareholding

The number of shares in the Company held beneficially by Mr Ross and Mr Westhead are shown on page 35 of this Report.

Results

The Group results for 1996 are set out on page 27 and the Review of Operations on pages 10 to 13.

Turnover increased from £85.9 million to £101.7 million. Adjusting for the effect of acquisitions, like-for-like turnover grew by 13 per cent. fuelled primarily by automotive growth.

Pre-exceptional profits for the year were £5.6 million, a reduction from £6.2 million the previous year.

The exceptional item related to the disposal of Airflow Science Corporation. This consists of a gain on sale of £0.4 million less a goodwill write off of £1.3 million.

Interest costs during the year were £0.9 million, compared to £0.6 million last year. At the balance sheet date net borrowings were £6.7 million giving gearing of 24 per cent.

Expenditure on research and development increased from £2.5 million to £3.2 million. At this level it amounts to just over 3 per cent. of total turnover, but is principally automotive, and represents a vital factor in the Group's continuing ability to provide high added-value services for customers.

The tax charge for the year was £2.0 million, equivalent to an effective tax rate of 36.7 per cent. after adjusting for the exceptional item. The rate in 1995 was 35.0 per cent.

Earnings per share

Earnings per share were 5.9p. After adjusting for the exceptional item, normalised earnings per share were 7.8p.

Dividends

The total dividend on the ordinary shares is unchanged at 6.3p. Cover, adjusting for the exceptional item, was 1.2 times (1995 1.4 times).

Cash Flow

During the year there was a cash outflow of £5.2 million. This reflects the significant investment in fixed assets and the two acquisitions during the year.

Code of Best Practice

The Group has complied throughout the financial year with those elements of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance that were in force for the year with the exception that following the retirement of Dr Hugh Metcalfe in November 1995, the group has had only two non-executive Directors. It is the intention of the Board to appoint a third non-executive Director in due course.

The Group's auditors, Price Waterhouse, have reviewed the Group's compliance with the specific matters in the Code which the London Stock Exchange requires that the auditors should review. They have reported to the Board that they are of the opinion that it is appropriate for the Directors to make the above statement.

The Board and its committees

The Board currently comprises of two executive Directors and two non-executive Directors and meets on a regular basis.

The Board has an Audit Committee comprising of the non-executive Directors. The executive Directors attend when appropriate. The Committee meets at least twice a year with the auditors in attendance at each meeting.

The Remuneration Committee also comprises of the non-executive Directors and meets at least once a year. The chief executive attends when appropriate.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has 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

Guidance for directors on reporting on internal controls was issued in December 1995 and is effective for the year ended 30 June 1996.

The directors are responsible for ensuring that the Group maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against misstatement or loss of assets.

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

(a) clear responsibilities 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, which was established during the year, and (for the year end) by external auditors. These reports are reviewed by the audit committee prior to the issue of the annual accounts.

The audit committee has reviewed the effectiveness of the system of internal financial controls for the period covered by the accounts.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on page 26, 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.

Following discussions with the auditors, the Directors consider that, in preparing the financial statements on pages 27 to 47 the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that the Group 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 Group and to prevent and detect fraud and other irregularities.

Auditors' Report to the Shareholders of Ricardo Group plc

We have audited the financial statements on pages 27 to 47 which have been prepared under the historical cost convention and the accounting policies set out on pages 32 and 33.

Respective responsibilities of Directors and auditors

As described on page 25 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 30 June 1996 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants
and Registered Auditors
Bristol
1 October 1996

Price Waterhouse

Consolidated Profit and Loss Account

for the year ended 30 June 1996

	Notes	Continuing	Dis-continued	1996 £'000 Total	Continuing	Dis-continued	1995 £'000 Total
Turnover	2						
Continuing operations		**94,997**	**—**	**94,997**	84,212	—	84,212
Acquisitions		**5,487**	**—**	**5,487**	—	—	—
		100,484	**—**	**100,484**	84,212	—	84,212
Discontinued operations		**—**	**1,244**	**1,244**	—	1,649	1,649
		100,484	**1,244**	**101,728**	84,212	1,649	85,861
Operating profit/(loss)	3						
Continuing operations		**6,769**	**—**	**6,769**	6,765	—	6,765
Acquisitions		**326**	**—**	**326**	—	—	—
		7,095	**—**	**7,095**	6,765	—	6,765
Discontinued operations		**—**	**(579)**	**(579)**	—	1	1
		7,095	**(579)**	**6,516**	6,765	1	6,766
Exceptional item:	4						
Loss on disposal of discontinued operations having written off £1,308,000 of goodwill for which there is a compensating adjustment to reserves		**—**	**(870)**	**(870)**	—	—	—
Profit/(loss) on ordinary activities before interest		**7,095**	**(1,449)**	**5,646**	6,765	1	6,766
Interest	5	**(944)**	**(3)**	**(947)**	(605)	—	(605)
Profit/(loss) on ordinary activities before taxation	6	**6,151**	**(1,452)**	**4,699**	6,160	1	6,161
Tax on profit on ordinary activities	9			**(2,045)**			(2,157)
Profit on ordinary activities after taxation				**2,654**			4,004
Minority interest				**8**			—
Profit for the financial year				**2,662**			4,004
Preference dividend	10			**(3)**			(3)
Profit attributable to ordinary shareholders				**2,659**			4,001
Ordinary dividend	10			**(2,908)**			(2,787)
Amount transferred (from)/ to reserves				**(249)**			1,214
Normalised earnings per ordinary share	11			**7.8p**			9.0p
Earnings per ordinary share	11			**5.9p**			9.0p

The notes on pages 32 to 47 form part of these accounts.

Consolidated Balance Sheet

as at 30 June 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	12	**27,062**	20,630
Investments	13	**225**	225
		27,287	20,855
Current assets			
Stocks	14	**3,615**	1,492
Debtors	15	**32,861**	28,473
Property held for sale	16	**1,642**	2,085
Cash deposit	17	**4,240**	4,240
Cash at bank and in hand		**4,865**	3,049
		47,223	39,339
Creditors – amounts falling due within one year	18	**(39,960)**	(30,725)
Net current assets		**7,263**	8,614
Total assets less current liabilities		**34,550**	29,469
Creditors – amounts falling due after more than one year	19	**(5,847)**	(468)
Provisions for liabilities and charges	20	**(786)**	(1,251)
Minority interest – equity		**(17)**	—
Net assets		**27,900**	27,750
Capital and reserves			
Share capital	21	**11,481**	11,186
Share premium account	22	**3,280**	2,063
Merger reserve	22	**967**	3,374
Profit and loss account	22	**12,172**	11,127
Shareholders' funds		**27,900**	27,750
Equity shareholders' funds		**27,840**	27,690
Non equity shareholders' funds		**60**	60
Shareholders' funds		**27,900**	27,750

The notes on pages 32 to 47 form part of these accounts.

These accounts were approved by the Board of Directors on 1 October 1996

Sir Philip Foreman – Chairman

P. J. Foreman

Christopher Ross – Chief Executive

C. J. Ross

Statement of Total Recognised Gains and Losses

for the year ended 30 June 1996

	1996 £'000	1995 £'000
Profit for the financial year	**2,662**	4,004
Currency translation differences on foreign currency net investments	**(14)**	63
Total recognised gains and losses relating to the year	**2,648**	4,067

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 June 1996

	1996 £'000	1995 £'000
Profit for the financial year	**2,662**	4,004
Dividends	**(2,911)**	(2,790)
	(249)	1,214
Other recognised (losses)/gains	**(14)**	63
Issue of ordinary shares	**1,645**	337
Goodwill written off on acquisitions	**(2,407)**	—
Expenses relating to the issue of shares	**(133)**	—
Goodwill written back to profit and loss account on disposal of discontinued operations	**1,308**	—
Addition to shareholders' funds	**150**	1,614
Opening shareholders' funds	**27,750**	26,136
Closing shareholders' funds	**27,900**	27,750

Company Balance Sheet

as at 30 June 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	12	**302**	214
Investments	13	**22,101**	24,728
		22,403	24,942
Current assets			
Debtors	15	**30,241**	21,786
Cash at bank and in hand		**2**	87
		30,243	21,873
Creditors – amounts falling due within one year	18	**(19,223)**	(18,952)
Net current assets		**11,020**	2,921
Total assets less current liabilities		**33,423**	27,863
Creditors – accounts falling due after more than one year	19	**(5,523)**	—
Provisions for liabilities and charges	20	**—**	(113)
Net assets		**27,900**	27,750
Capital and reserves			
Share capital	21	**11,481**	11,186
Share premium account	22	**3,280**	2,063
Other reserves	22	**—**	1,047
Revaluation reserves	22	**7,822**	10,553
Profit and loss account	22	**5,317**	2,901
Shareholders' funds		**27,900**	27,750
Equity shareholders' funds		**27,840**	27,690
Non equity shareholders' funds		**60**	60
Shareholders' funds		**27,900**	27,750

The notes on pages 32 to 47 form part of these accounts.

These accounts were approved by the Board of Directors on 1 October 1996

Sir Philip Foreman – Chairman

Christopher Ross – Chief Executive

Consolidated Cash Flow Statement

for the year ended 30 June 1996

	Notes	1996 £'000	1996 £'000	1995 £'000	1995 £'000
Net cash inflow from operating activities	23		**11,569**		9,522
Returns on investments and servicing of finance:					
Interest received		**319**		269	
Interest paid		**(1,035)**		(941)	
Interest element of finance lease rentals payments		**(62)**		(3)	
Dividends paid		**(2,865)**		(2,643)	
Net cash outflow from returns on investments and servicing of finance			**(3,643)**		(3,318)
Taxation:					
UK corporation tax paid		**(1,375)**		(1,302)	
Overseas tax paid		**(607)**		(761)	
			(1,982)		(2,063)
Investing activities:					
Purchase of investments including minority interest		**(50)**		(207)	
Purchase of tangible fixed assets		**(8,070)**		(5,807)	
Purchase of subsidiary undertakings (net of cash and cash equivalents acquired)	27	**(4,259)**		—	
Sale of tangible fixed assets		**622**		175	
Sale of property held for sale		**425**		—	
Sale of Airflow Sciences Corporation	28	**338**		—	
Net cash outflow from investing activities			**(10,994)**		(5,839)
Net cash outflow before financing			**(5,050)**		(1,698)
Financing:					
Issue of ordinary share capital	26		**(218)**		(337)
Proceeds of rights issue			**—**		(13,645)
Capital elements of finance lease rental payments	26		**253**		93
Cash deposit for future repayment of loan notes			**—**		4,240
Costs paid in connection with shares issued			**133**		1,180
Minority share subscription			**(25)**		—
Net cash outflow/(inflow) from financing			**143**		(8,469)
(Increase)/decrease in short term borrowings	24		**(5,193)**		6,771
			(5,050)		(1,698)

1 Accounting policies

The accounts have been prepared in accordance with applicable accounting standards.

The particular accounting policies are described below.

(a) Accounting convention

Investments in subsidiary companies have been revalued to the amount of the net tangible assets of the companies concerned. All other items are stated in the accounts under the historical cost accounting convention.

(b) Basis of consolidation

The financial statements incorporate the results of all subsidiaries from the date of acquisition or to the date of disposal. Goodwill arising on consolidation and through acquisitions is dealt with through reserves.

(c) Turnover

Turnover comprises sales to outside customers excluding VAT.

On contracts, the Group records transactions as sales on the basis of value of work done with the corresponding amount being included in trade debtors as amounts recoverable on contracts. Advance payments received from customers are included in creditors and amounts are set off against the value of work undertaken as the contracts progress.

(d) Tangible fixed assets

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

Freehold buildings	—Over 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

(e) Properties for sale

Properties for sale are treated as current assets and are stated at their estimated realisable value.

(f) Stocks and work in progress

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

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

(g) Research and development

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

(h) Foreign exchange

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

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

(i) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

(j) Leases

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

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

(k) Trade investments

Trade investments are valued at cost less any provision for permanent diminution in value.

(l) Pension costs

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

2 Turnover by destination

	1996 £'000	1995 £'000
United Kingdom	**44,429**	41,399
Rest of Europe	**30,154**	19,015
North America	**17,819**	17,860
Pacific Basin	**8,421**	6,775
Rest of the World	**905**	812
	101,728	85,861

The United Kingdom is the principal source of turnover and operating profits derived from external customers, and the principal location of the net assets of the Group. The Directors consider that the Group operates in one business segment, serving various markets.

3 Operating profit/(loss)

	Continuing £'000	Aquisitions £'000	Discontinued £'000	1996 Total £'000	Continuing £'000	Discontinued £'000	1995 Total £'000
Turnover	**94,997**	**5,487**	**1,244**	**101,728**	84,212	1,649	85,861
Cost of sales	**67,821**	**3,876**	**768**	**72,465**	59,118	1,109	60,227
Gross profit	**27,176**	**1,611**	**476**	**29,263**	25,094	540	25,634
Administrative expenses	**(20,407)**	**(1,285)**	**(1,055)**	**(22,747)**	(18,329)	(539)	(18,868)
Operating profit/(loss)	**6,769**	**326**	**(579)**	**6,516**	6,765	1	6,766

4 Exceptional item

	1996 £'000	1995 £'000
Profit on disposal of Airflow Sciences Corporation	**438**	—
Goodwill previously written off to reserves on acquisition	**(1,308)**	—
	(870)	—

5 Interest

	1996 £'000	1995 £'000
Continuing operations:		
Interest receivable	**312**	288
Interest payable on overdrafts and loans	**(1,194)**	(890)
Interest payable on finance leases	**(62)**	(3)
	(944)	(605)
Discontinued operations:		
Interest payable on overdrafts and loans	**(3)**	—
	(947)	(605)

6 Profit/(loss) on ordinary activities before taxation

	1996 £'000	1995 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Research and development	**3,254**	2,538
Operating leases: land and buildings	**799**	584
other	**671**	571
Depreciation: own assets	**4,526**	3,939
assets held under finance leases	**296**	122
Total auditors' remuneration was as follows:		
Audit fees	**187**	145
Fees in respect of other services provided by the Group auditors	**146**	67

7 Employees

	1996 £'000	1995 £'000
Staff costs:		
Wages and salaries	**42,912**	37,353
Social security costs	**4,325**	3,595
Other pension costs	**1,683**	1,278
	48,920	42,226

	1996 Number	1995 Number
Average number of employees during the year:		
Management, administration and sales	**261**	228
Production and engineering staff	**1,394**	1,137
	1,655	1,365

8 Directors

Directors emoluments

	Salary or fees and benefits	Performance related bonus	FURBS taxation	Sub Total	Pension contributions	1996 £'000 Total
Executive						
C. G. Ross	203	5	42	250	75	**325**
R. J. Westhead	177	5	20	202	41	**243**
Non-Executive						
Sir Philip Foreman	55	—	—	55	—	**55**
H. Metcalfe	8	—	—	8	—	**8**
C. W. Foreman	23	—	—	23	—	**23**
	466	10	62	538	116	**654**

	Salary or fees and benefits	Performance related bonus	FURBS taxation	Sub Total	Pension contributions	1995 £'000 Total
Executive						
C. G. Ross	166	32	29	227	61	288
R. J. Westhead	143	26	14	183	25	208
Non-Executive						
Sir Philip Foreman	50	—	—	50	—	50
H. Metcalfe	25	—	—	25	—	25
C. W. Foreman	19	—	—	19	—	19
	403	58	43	504	86	590

Shareholdings

According to the register maintained by the Company for that purpose, the Directors' respective beneficial interests in the ordinary shares of the Company were as follow:

	1996 30 June	1995 30 June
Sir Philip Foreman	**19,252**	13,252
C. W. Foreman	**6,626**	6,626
C. G. Ross	**25,903**	15,903
R. J. Westhead	**7,813**	3,313

At 16 September 1996 the respective holdings of the Directors had not changed from those at 30 June 1996.

Share Options granted to the Directors during the year are detailed within the Remuneration Committee report on page 21.

9 Tax on profit on ordinary activities

	1996 £'000	1995 £'000
UK corporation tax at 33% (1995 – 33%)	**1,886**	2,225
Overseas taxation	**604**	841
Double tax relief	**(469)**	(463)
Deferred taxation	**240**	(262)
Adjustment in respect of prior years	**(216)**	(184)
	2,045	2,157

10 Dividends

	1996 £'000	1995 £'000
Preference dividends:		
3.75% redeemable cumulative first preference	**1**	1
7.5% cumulative second preference	**2**	2
	3	3
Ordinary dividends:		
Interim of 2p net per share (1995 – 2p)	**950**	873
Proposed final of 4.3p net per share (1995 – 4.3p)	**1,958**	1,914
	2,908	2,787

11 Earnings per share

The calculation of earnings per ordinary share is based on the weighted average number of shares in issue of 45,397,990 (1995 – 44,265,217) and a profit after taxation and preference dividend of £2,659,000 (1995 – £4,001,000).

The calculation of normalised earnings per share is based on the same number of shares as above, but is after adding back the exceptional item of £870,000 to the profit after taxation and preference dividend figure of £2,659,000.

The exercise of all options outstanding at 30 June 1996 would not result in a material dilution of earnings per share on either basis.

12 Tangible fixed assets

GROUP	Land and Buildings Freehold £'000	Land and Buildings Long Leasehold £'000	Short Leasehold £'000	Plant & Machinery £'000	Fixtures, Fittings & Equipment £'000	Total £'000
Cost:						
At 1 July 1995	8,748	45	63	21,136	8,344	**38,336**
Reclassifications	—	—	—	88	(88)	**—**
Additions	448	—	141	7,791	3,312	**11,692**
Disposals	—	(16)	(2)	(811)	(2,939)	**(3,768)**
At 30 June 1996	9,196	29	202	28,204	8,629	**46,260**
Depreciation:						
At 1 July 1995	799	15	32	12,450	4,410	**17,706**
Reclassifications	—	—	—	18	(18)	**—**
Depreciation for the year	29	3	54	2,551	2,185	**4,822**
Disposals	—	(1)	(2)	(772)	(2,555)	**(3,330)**
At 30 June 1996	828	17	84	14,247	4,022	**19,198**
Net Book Amount 1996	8,368	12	118	13,957	4,607	**27,062**
Net Book Amount 1995	7,949	30	31	8,686	3,934	20,630

COMPANY	Fixtures, Fittings & Equipment £'000	Total £'000
Cost:		
At 1 July 1995	321	**321**
Additions	268	**268**
Disposals	(132)	**(132)**
Inter group transfer	25	**25**
At 30 June 1996	482	**482**
Depreciation:		
At 1 July 1995	107	**107**
Depreciation for the year	100	**100**
Disposals	(44)	**(44)**
Inter group transfer	17	**17**
At 30 June 1996	180	**180**
Net Book Amount 1996	302	**302**
Net Book Amount 1995	214	214

Group fixtures, fittings and equipment include assets acquired under finance leases with a cost of £996,000 and net book amount of £503,000. For assets acquired under finance leases, the Group depreciation charge for the year includes £296,000 relating to fixtures, fittings and equipment.

13 Investments

	Group Trade Investments £'000	Group Own Shares £'000	**Group Total £'000**	Company Shares in Subsidiaries £'000	Company Own Shares £'000	**Company Total £'000**
At 1 July 1995	18	207	**225**	24,521	207	**24,728**
Addition	—	—	—	2,948	—	**2,948**
Revaluation	—	—	—	(5,575)	—	**(5,575)**
At 30 June 1996	18	207	**225**	21,894	207	**22,101**

The cumulative movement on investment in subsidiary companies is as follows:

	1996 £'000	1995 £'000
Original cost	**27,469**	24,337
Share premium account	**(133)**	—
Profit and loss account	**(1,664)**	(4)
Other reserves	**(1,047)**	(10,365)
Revaluation reserve	**(2,731)**	10,553
Revaluation in accordance with Note 1(a)	**21,894**	24,521

The investment in the Company's own shares, stated at cost, relates to 145,000 Ordinary Shares of 25p each held by the Group's Employee Share Ownership Plan ('ESOP') Trust. The book value and market value of the shares at 30 June 1996 were 142.7p and 135p respectively. The assets and liabilities of the ESOP have been treated as assets and liabilities of Ricardo Group plc.

On 29 September 1995 the Group purchased the entire issued share capital of Test Automation Limited for £2,814,000 of which £1,387,000 was paid in cash and the remainder by the issue of 920,535 ordinary shares of 25p each.

The goodwill on consolidation of £2,194,000, including expenses associated with the acquisition totalling £133,000, has been written off to reserves and there is no difference between the net assets acquired and the fair value to the Group. The profit before tax of Test Automation Limited and its fellow subsidiary for the year ended 30 April 1995 was £522,000. The loss before tax for the subsequent period to the date of acquisition was £34,000.

On 16 October 1995, the Group purchased certain assets from InterMet Corporation for £2,943,000. The value attributed to these assets was £2,597,000 and the goodwill thereon has been written off to reserves.

Ricardo Group plc has a 51 per cent. holding, through its wholly owned subsidiary Ricardo Aerospace Limited, in the issued ordinary share capital of Ricardo Fluid Gravity Limited, which was established during the year and which has been consolidated in these accounts.

14 Stocks

	1996 Group £'000	1995 Group £'000
Raw materials and consumables	**2,221**	1,123
Work in progress	**1,394**	369
	3,615	1,492

15 Debtors

Amounts falling due within one year	1996 Group £'000	1996 Company £'000	1995 Group £'000	1995 Company £'000
Trade debtors	**23,036**	**14**	17,702	48
Amounts recoverable on contracts	**7,182**	**—**	8,165	—
Amounts owed by Group undertakings	**—**	**25,539**	—	18,223
Prepayments	**1,572**	**6**	1,053	72
Deferred tax asset	**—**	**133**	—	—
Other debtors	**942**	**4,549**	1,535	3,443
	32,732	**30,241**	28,455	21,786
Amounts falling due after one year				
Other debtors	**129**	**—**	18	—
	32,861	**30,241**	28,473	21,786

16 Property held for sale

	1996 Group £'000	1995 Group £'000
Net book amount at 1 July 1995	**2,085**	2,085
Additions in year	**38**	—
Disposal in year	**(481)**	—
	1,642	2,085

17 Cash deposit

This cash is held on deposit at Lloyds Bank Plc and can only be utilised to redeem the loan notes referred to in Note 18. The interest attaching to the deposit is receivable by the Group until the loan notes are redeemed. The deposit has been excluded from cash and cash equivalents in the Cash Flow Statement.

On 31 July 1996 £3.9m of this deposit was used to redeem £3.9m of the loan notes.

18 Creditors – amounts falling due within one year

	1996 Group £'000	1996 Company £'000	1995 Group £'000	1995 Company £'000
Loan notes	**4,240**	**—**	4,240	—
Bank loans and overdrafts	**6,084**	**5,788**	4,584	6,086
Payments received in advance	**6,983**	**—**	3,960	—
Trade creditors	**8,672**	**148**	5,709	221
Amounts owed to Group undertakings	**—**	**9,948**	—	9,434
Finance lease obligations	**252**	**—**	60	—
Other creditors	**768**	**342**	1,554	403
UK corporation tax	**1,017**	**—**	998	—
ACT on dividends	**717**	**717**	666	666
Overseas taxes	**122**	**—**	158	—
Other taxes and social security	**3,092**	**70**	2,043	48
Dividends	**1,960**	**1,960**	1,914	1,914
Accruals	**6,053**	**250**	4,839	180
	39,960	**19,223**	30,725	18,952

The reducing guaranteed floating rate unsecured loan notes 2004 were issued in connection with the acquisition of FFD-Ricardo Ltd. Interest is payable twice yearly in arrears on 31 January and 31 July at the rate of 1⅛ per cent. below Lloyds Bank Plc base rate. The loan notes are redeemable at the option of the holder on any interest payment date between 31 July 1996 and 31 January 2004 at not less than 90 days' notice. Payment of the loan notes to the holders is guaranteed by Lloyds Bank Plc. The Group has made an equivalent deposit with the bank as security for the guarantee (see Note 17).

19 Creditors – amounts falling due after more than one year

	1996 Group £'000	**1996 Company £'000**	1995 Group £'000	1995 Company £'000
Bank loans	**5,523**	**5,523**	—	—
Finance lease obligations	**274**	**—**	71	—
Other creditors	**50**	**—**	397	—
	5,847	**5,523**	468	—
Amounts falling due:				
Between one and two years	**348**	**326**	468	—
Between two and five years	**4,663**	**4,361**	—	—
In five years or more	**836**	**836**	—	—
	5,847	**5,523**	468	—

20 Provisions for liabilities and charges

	Group Deferred Taxation Capital Allowances £'000	Other £'000	Group and Company ACT Recoverable £'000	Total £'000	Group Re-organisation Provision £'000	Group and Company Pension Costs £'000	**Group Total £'000**	**Company Total £'000**
As at 1 July 1995	942	155	(444)	653	41	557	**1,251**	**113**
Charged/(credited) to profit and loss account	135	(313)	—	(178)	(41)	(200)	**(419)**	**(200)**
ACT recoverable	—	—	(46)	(46)	—	—	**(46)**	**(46)**
As at 30 June 1996	1,077	(158)	(490)	429	—	357	**786**	**(133)**

The Company deferred tax asset of £133,000 has been included in debtors.

Deferred taxation	**1996 Group £'000**	**1996 Company £'000**	1995 Group £'000	1995 Company £'000
The potential amounts of deferred taxation unprovided:				
For capital allowances in excess of depreciation	**3,209**	**(20)**	2,865	(14)
Other timing differences	**(505)**	**(123)**	(319)	(186)
	2,704	**(143)**	2,546	(200)

21 Share capital

Authorised and Issued	Authorised 1996 £'000	Authorised 1995 £'000	Allotted and fully paid 1996 £'000	Allotted and fully paid 1995 £'000
Preference shares of £1				
3.75% redeemable cumulative first preference shares (redeemable after 3 months notice at par and at the Company's option)	**20**	20	**20**	20
7.5% cumulative second preference shares	**40**	40	**40**	40
	60	60	**60**	60
Ordinary shares of 25p	**14,940**	14,940	**11,421**	11,126
Total authorised and allotted share capital	**15,000**	15,000	**11,481**	11,186

Movements in Ordinary Share Capital

	Number of shares	Allotted and fully paid £'000
Shares issued at 1 July 1995	44,502	11,126
Shares issued on acquisition of Test Automation Limited	921	230
Shares issued upon exercise of options	261	65
Shares issued at 30 June 1996	45,684	11,421

It is the Directors' intention that the Company should redeem the 3.75 per cent. redeemable cumulative first preference shares of £1 each in January 1997, and notice of redemption is being sent to the holders of such shares.

Share Options

The Company has two Inland Revenue approved employee share option schemes under which options to subscribe for ordinary shares may be granted. Details of outstanding options under the schemes which are exercisable up to March 2006 are as follow:

Number of Ordinary Shares	Exercise Price
18,584	106.6p
37,977	115.7p
46,690	102.4p
25,317	106.2p
234,014	88.7p
126,590	64.5p
84,394	110.0p
622,000	138.0p
170,000	140.0p
80,000	152.0p
496,000	114.0p
682,795	122.4p

21 Share capital *(continued)*

Under the terms of the acquisition of SAC International plc, the SAC Executive Share Option Scheme holders have the option to subscribe for ordinary shares up to May 1999 as follows:

Number of Ordinary Shares	Exercise Price
9,515	173.0p
6,920	265.4p
4,325	160.7p
12,975	119.9p

Under the ESOP, options were granted over 110,000 ordinary shares at an option price of 140p prior to 1 July 1995, of these options, 80,000 lapsed on 12 March 1996. Further options were granted during the year under this plan over 110,000 shares to six persons at an option price of 114p. Shares for this purpose are bought in the market by the trustee as and when required and do not involve the issue of new shares.

During the year options were also granted to senior executives in the Group under the 1994 Executive Share Option. An option over 80,000 shares at an option price of 152p was granted to one executive and options over 496,000 shares at an option price of 114p were granted to twenty-four executives.

22 Reserves

	Group share premium account £'000	Group merger reserve £'000	Group profit and loss account £'000
Balance as at 1 July 1995	2,063	3,374	11,127
Exchange rate movements	—	—	(14)
Arising on shares issued	1,350	—	—
Expenses associated with the acquisition	(133)	—	—
Goodwill arising on acquisitions	—	(2,407)	—
Deficit for the financial year	—	—	(249)
Goodwill written back	—	—	1,308
Balance as at 30 June 1996	**3,280**	**967**	**12,172**

The cumulative value of goodwill at 30 June 1996 resulting from acquisitions, which has been written off to reserves, is £27,857,000.

	Company share premium account £'000	Company other reserves £'000	Company revaluation reserves £'000	Company profit and loss account £'000
Balance as at 1 July 1995	2,063	1,047	10,553	2,901
Exchange rate movements	—	—	—	22
Arising on shares issued	1,350	—	—	—
Expenses associated with the acquisition	(133)	—	—	—
Write down investment to underlying net asset value	—	(1,047)	—	—
Revaluation of investments	—	—	(2,731)	(1,664)
Profit for the year	—	—	—	4,058
Balance as at 30 June 1996	**3,280**	**—**	**7,822**	**5,317**

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 £6,969,000 (1995 – £1,085,000).

23 Net cash inflow from operating activities

	1996 £'000	1995 £'000
Operating profit	**6,516**	6,766
Depreciation charges	**4,822**	4,061
Profit on sale of tangible fixed assets and properties held for sale	**(240)**	(25)
Increase in stocks	**(1,840)**	(229)
Increase in debtors	**(390)**	(3,969)
Increase in creditors	**2,701**	2,918
	11,569	9,522

24 Changes in cash and cash equivalents during the year

	1996 £'000	1995 £'000
Balance at 1 July 1995	**(1,535)**	(8,369)
Net cash (outflow)/inflow before adjustments for the effect of foreign exchange rate changes	**(5,193)**	6,771
Effect of foreign exchange rate changes	**(14)**	63
Balance at 30 June 1996	**(6,742)**	(1,535)

25 Cash and cash equivalents as shown in the balance sheet

	1996 £'000	1995 £'000	Change in Year £'000
Cash at bank and in hand	**4,865**	3,049	1,816
Bank overdrafts and loans	**(11,607)**	(4,584)	(7,023)
	(6,742)	(1,535)	(5,207)

26 Changes in financing during the year

	Share Capital (including premium)		Finance Lease Obligations	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Balance at 1 July 1995	**13,249**	12,912	**130**	85
Issue of ordinary share capital	**218**	337	**—**	—
Inception of finance lease contracts	**—**	—	**605**	138
Capital element of finance lease rental payments	**—**	—	**(253)**	(93)
Shares issued for non cash consideration	**1,427**	—	**—**	—
Finance lease contracts acquired on acquisitions	**—**	—	**44**	—
Expenses of share issue	**(133)**	—	**—**	—
Balance at 30 June 1996	**14,761**	13,249	**526**	130

27 Purchase of subsidiary undertakings

	1996 £'000 Intermotive Technologies Inc.	1996 £'000 Test Automation Ltd.	1996 £'000 Total
Net assets acquired			
Tangible fixed assets	2,710	302	3,012
Stocks	16	267	283
Debtors	—	1,242	1,242
Cash at bank and in hand	—	71	71
Creditors	(129)	(1,129)	(1,258)
	2,597	753	3,350
Goodwill	346	2,061	2,407
	2,943	2,814	5,757
Satisfied by:			
Cash paid	2,943	1,387	4,330
Shares allotted	—	1,427	1,427
	2,943	2,814	5,757

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of the subsidiary undertakings:

	1996 £'000
Cash consideration	4,330
Cash at bank and in hand acquired	(71)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	4,259

28 Sale of Airflow Sciences Corporation

	1996 £'000
Net assets	
Fixed assets	112
Debtors	270
Cash	44
Creditors and provisions	(219)
	207
Profit on disposal	438
Total consideration on disposal	645
Deferred consideration received 16 July 1996	(134)
Deferred consideration due October 1997	(129)
Cash consideration	382
Cash balance	(44)
Net cash inflow of cash and cash equivalent on sale of Airflow Sciences Corporation	338

The subsidiary sold during the year contributed £29,000 to the Group's net operating cash flows and paid £3,000 in respect of net returns on investments and servicing of finance.

29 Commitments

(a) Capital commitments

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

	1996 £'000	1995 £'000
Contracted	**2,086**	282

The Company had no capital commitments at 30 June 1996 or 30 June 1995.

(b) Operating leases

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

In respect of leases expiring:	1996 Land and Buildings £'000	1996 Other £'000	1995 Land and Buildings £'000	1995 Other £'000
Within one year	**148**	**432**	128	331
Between one and five years	**259**	**624**	276	636
After five years	**429**	**—**	227	—
	836	**1,056**	631	967

The Company had no commitments in respect of operating leases at 30 June 1996 or 30 June 1995.

(c) Obligations under finance leases

	Group 1996 £'000	Group 1995 £'000
Payable within one year	**307**	77
Payable between one and five years	**331**	78
	638	155
Less future finance charges	**(112)**	(24)
	526	131
Included in creditors due within one year	**252**	60
Included in creditors due after one year	**274**	71

30 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 fund, known as the Ricardo Group Pension Fund, is of a defined benefit type. Pension costs relating to this fund are assessed in accordance with the advice of a qualified actuary using the defined accrued benefits method. The last actuarial valuation of the Ricardo Group Pension Fund was at 6 April 1993. At that date, the market value of the assets of the fund amounted to £22.6 million and was sufficient to cover 106 per cent. of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment return would be 9 per cent. per annum and that salaries would increase at 6.5 per cent. per annum. Assets were valued consistently with liabilities and it was assumed that dividends on equity investments would increase at 5 per cent. per annum. The actuary has provided a statement, as at 6 April 1993, that in his opinion the Ricardo Group Pension Fund's assets fully covered its liabilities as at that date and that the resources of the fund are likely, in the normal course of events, to meet in full the liabilities of the fund as they fall due, assuming contributions continue to be paid at the present rates. None of the other smaller defined benefit schemes have material surpluses or deficits.

31 Contingent liabilities

At 30 June 1996 subsidiaries had entered into guarantees and performance bonds totalling £140,000 (1995 – £702,000). The Company has given a guarantee in respect of certain bank overdrafts of its subsidiaries.

32 Principal operating subsidiaries

Each subsidiary company operates principally in the country in which it is incorporated.
The Company owns directly, or indirectly, 100 per cent. of the issued ordinary share capital of the following principal operating subsidiaries:

Incorporated in Great Britain (and registered in England and Wales)	*Nature of business*
Ricardo Consulting Engineers Ltd. Bridge Works Shoreham-by-Sea West Sussex BN43 5FG	Powertrain and vehicle research, development and design
Ricardo Test Automation Ltd. Lowesmoor Wharf, Worcester WR1 2RS	Integrated system design and hardware manufacture for engine and vehicle component test cells
FFD-Ricardo Ltd. Wolston Business Park Main Street Wolston Coventry CV8 3LR	Chassis and transmission engineering and transmission assembly
Incorporated in the USA	
Ricardo North America, Inc. 7850 Grant Street Burr Ridge Chicago Illinois and 9059 Samuel Barton Drive, Belleville Michigan	Automotive engineering design
FFD-Ricardo, Inc. 12898 Westmore Livonia Michigan	Chassis and transmission engineering, transmission assembly; and engineering people placement
Also Incorporated in Great Britain (and registered in England and Wales)	
Ricardo Aerospace Ltd. Brunswick House Upper York Street Bristol BS2 8QN	Aircraft and gas turbine engineering
Ricardo Hitec Ltd. Club Street Works Bamber Bridge Nr. Preston PR5 6FN	Nuclear engineering design and manufacturing

The subsidiaries owned directly by the Company are included in investments (note 13).

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF RICARDO GROUP PLC WILL BE HELD AT INSTITUTION OF MECHANICAL ENGINEERS. 1 BIRDCAGE WALK, LONDON SW1 ON 1 NOVEMBER 1996 AT 11.00 am FOR THE FOLLOWING PURPOSES:

ORDINARY BUSINESS

1. To receive the report of the Directors and the audited consolidated accounts for the year ended 30 June 1996.
2. To declare a dividend as recommended by the Board.
3. To re-elect Mr C. W. Foreman who retires by rotation, as a Director of the Company on the recommendation of the Board.
4. To re-appoint Price Waterhouse as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the members, and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

ORDINARY RESOLUTIONS

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

5. That the Directors of the Company be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £3,519,000 at any time or times during the period expiring at the conclusion of the next Annual General Meeting (unless previously renewed, varied or revoked by the Company in general meeting), but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors of the Company may notwithstanding such expiry allot relevant securities in pursuance of that offer or agreement.
6. (a) That the Ricardo Long Term Incentive Plan (the principal terms which are summarised in the appendix to the letter to shareholders dated 1 October 1996 and the draft trust deed and rules which have been produced to the meeting and signed by the Chairman for the purposes of identification) be and is hereby approved and adopted and that the directors be and are hereby authorised to take any and all action they determine to be necessary or expedient to carry the Plan into effect and

   (b) the directors be and are hereby authorised to establish further incentive plans based on the terms of the Plan as modified to take account of local tax, exchange control or securities laws in overseas territories in which the Company carries on business provided that the Shares made available under such further plans shall be treated as counting towards any individual or overall limits in the Plan.
7. That, subject to the approval of the Inland Revenue, the Rules of the ShareSave Scheme be amended in accordance with the summary of amendments set out on pages 17 and 18 above, and the Directors be and they are hereby authorised to do all things which they may consider necessary or desirable to carry such amendments into effect and to make any further or consequential amendments as may be required by the Inland Revenue.

SPECIAL RESOLUTIONS

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

8. That the Directors be and are hereby generally and unconditionally authorised pursuant to section 166 of the Companies Act 1985 to make on behalf of the Company market purchases (as defined in section 163 of the said Act) of ordinary shares of 25p in the capital of the Company provided that

   (i) the maximum number of ordinary shares authorised to be acquired shall be 4,568,400 being 10 per cent. of the issued share capital;

(ii) the maximum price which may be paid for the ordinary shares shall be, in respect of a share contracted to be purchased on any day an amount equal to 105 per cent. of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the ordinary shares of the Company on the 10 business days immediately preceding the day on which the share is to be purchased, which amount shall be exclusive of expenses;

(iii) the minimum price which may be paid for the ordinary shares shall be in respect of a share contracted to be purchased on any day, an amount equal to 75 per cent. of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the ordinary shares of the Company on the 10 business days immediately preceding the day on which that share is to be purchased, which amount shall be exclusive of expenses but shall not, in any event, be less than the par value of that share; and

(iv) this authority shall expire at the conclusion of the next Annual General Meeting except in relation to any purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiration.

9. That the Directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in section 94 of the said Act) pursuant to the authority conferred by the resolution in item 5 above as if sub-section (1) of section 89 of the Companies Act 1985 did not apply to such allotment provided that this power shall be limited:

(i) to the allotment of equity securities, whether in connection with rights issues, open offers or otherwise, in favour of holders of ordinary shares where the equity securities respectively attributable to each holder are proportionate (as nearly as may be) to the respective number of ordinary shares held by such holders but subject to such exclusions or arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(ii) to the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal value of £571,050 and shall expire at the conclusion of the next Annual General Meeting, provided that the Company may before the expiry of such power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may notwithstanding such expiry, allot securities in pursuance of such offer or agreement.

10. That the draft Articles of Association produced to the meeting and signed by the Chairman for the purposes of identification be and they are hereby adopted as the Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association of the Company.

A member entitled to attend and vote at the above-mentioned meeting is entitled to appoint a proxy, who need not be a member of the Company, to attend and, on a poll, vote in his stead.

On behalf of the Board
R. J. Westhead
Director and Secretary

Dated 1 October 1996
Registered Office:
1 Watling Drive, Sketchley Business Park,
Hinckley, Leicestershire LE10 3EY

Note:
The Register of Directors' Interests in shares of the Company will be available for inspection at the registered office of the Company during business hours on any weekday (excluding Saturday) from the date of this notice until the date of the Annual General Meeting and at Institution of Mechanical Engineers, 1 Birdcage Walk, London SW1 on 1 November 1996 from 10.45 am until the conclusion of the meeting.