

# AUKETT

AUKETT GROUP PLC ANNUAL REPORT AND ACCOUNTS 2003

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Aukett Group Plc is an international group of architects, designers and engineers. The Group has its headquarters in London with offices in the United Kingdom and continental Europe. We offer our clients creative design consultancy combined with commercial awareness. Our sectors include offices, workplace design, business parks, retail, hotels, education, transport, IT, media, industrial, urban regeneration, healthcare and technical support facilities.

## Contents

2	Five year summary of results
2	Corporate information
3	Chairman's statement
9	Financial review
12	Directors
13	Directors' report
16	Report on Directors' Remuneration
21	Corporate governance report
23	Statement of directors' responsibilities
24	Independent auditor's report
26	Consolidated profit and loss account
27	Consolidated balance sheet
28	Company balance sheet
29	Statement of total recognised gains and losses
29	Reconciliation of movements in shareholders' funds
30	Consolidated cash flow statement
31	Notes to the financial statements
47	Notice of meeting
48	Shareholder information

## Five year summary of results

<b>Years ended 30 September</b>	1999	2000	2001	2002	<b>2003</b>
Group work done (£000)	13,849	18,867	18,999	13,102	<b>13,555</b>
Operating profit/(loss) (£000)	857	1,931	773	(1,337)	<b>530</b>
(Loss)/profit before taxation (£000)	1,022	2,052	480	(2,447)	<b>(157)</b>
(Loss)/earnings per share (p)	0.97	2.13	0.22	(3.27)	<b>(0.13)</b>
Net assets (£000)	2,502	3,666	3,472	1,102	<b>1,493</b>
Net borrowings (£000)	(751)	(1,184)	(1,322)	(2,390)	<b>(1,911)</b>

**Note:** The results for 2001, 2002 and 2003 reflect the impact of UITF 34. It is not practical to restate the results of prior periods.

## Corporate information

For the year ended  
30 September 2003

### Registered Office

2 Great Eastern Wharf  
Parkgate Road  
London SW11 4TT

### Solicitors

Mayer, Brown, Rowe & Maw LLP  
11 Pilgrim Street  
London EC4V 6RW

### Financial Advisers and Stockbrokers

Williams de Broë Plc  
6 Broadgate  
London EC2M 2RP

### Bankers

Coutts & Co  
440 Strand  
London WC2R 0QS

### Auditors

Baker Tilly  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

### Registrars and Transfer Office

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA

### Company Secretary

Patrick Carter LLB ACA

Company registered in England and Wales,  
No. 2155571

For the year ended  
30 September 2003

### **Introduction**

I am pleased to report on a year in which progress has been made towards strengthening the Group's financial and commercial position against the background of challenging trading conditions. The return to profitability of the Group as a whole, achieved in the final quarter of last year, has been sustained. Profit on ordinary activities before exceptional write-offs was £308,000 (2002: loss £2,114,000). Decision makers in our sectors remained cautious and, as a result, a significant increase in the volume of business for the Group as a whole did not materialise. Turnover increased marginally to £14.03m (2002: £13.68m). Although results from Europe are poor, positive progress has been made in implementing changes in those operations. At the half-year we indicated our intention to revise the arrangements for the provision of services in Europe. The exceptional losses from subsequent disposals of our interests in certain joint ventures were £465,000 (2002: impairment of goodwill £333,000). The remaining joint ventures are better than break-even. The business has generated a positive cash inflow of £1.3m before financing and movement in creditors. This has been applied to reduce both creditors and bank borrowings resulting in net borrowings falling to £1.911m (2002: £2.390m) and gearing reducing to 128% (2002: 217%). Trade debtor days deteriorated during the year but have improved since the year-end. The bank facility has been renewed for the forthcoming 12 months at a level which the directors believe continues to give the Company sufficient flexibility to address the business needs over that period.

### **Board Changes**

In June 2003 three executives joined the Board. Stuart McLarty was appointed Director responsible for group marketing, Paul Newman was appointed Director responsible for group project performance and Stephen Embley was appointed Director responsible for group resource co-ordination. All three are qualified design professionals who have been with the Company for over ten years. Together they are responsible for the formulation and implementation of initiatives to utilise across the Group the range of skill sets and client sector knowledge in marketing, sales support and project management. Andrew Lett resigned from the Board in August 2003 and left the Company on 30 September 2003. We appreciate and thank him for his many years of loyal service to the Group.

### **Review of Operations**

As stated in our half-year results we experienced a slow down in work levels in early spring. This continued through the second half of the year. Costs were trimmed accordingly to ensure that the Group as a whole remained profitable but market research and marketing spend were maintained throughout to develop the opportunities that ultimately will deliver the required long-term growth in both turnover and profit.

*Overleaf: Bedfont Lakes, Middlesex, UK*





## Chairman's statement

For the year ended  
30 September 2003

### **UK operations**

In the UK the business unit organisation began to make an impact in accessing new business. The retail sector has had an inconsistent year. As retail is often the driver for mixed use developments, Aukett's expertise has brought success in winning two major new commissions during the year in Folkestone and the Isle of Dogs, East London. They both include approximately 600 apartments as well as retail and commercial elements thus extending our sector coverage into residential. They are currently progressing through planning stages.

The corporate office sector has had a difficult year with a significant decline in activity across the industry. Nevertheless major projects have been won and work has started on a new facility for Fujitsu in Manchester, the mechanical and electrical engineering services for the 20,000 sq. metre Palestra office development in Southwark, new office buildings at Leeds Valley Business Park and the office and studio facilities for Sky Sports at the British Sky Broadcasting HQ site in West London.

Urban planning in towns and cities and master planning of large greenfield sites have been buoyant and furthermore have opened up major project opportunities. We have received a number of important appointments including a high density mixed use master plan in Brentford, West London, which has been completed, and an on-going 90 acre mixed use master planning project at Northfleet, Kent, which combines commercial, retail, educational, leisure and hotel elements. Our success is not limited to the UK. Inter alia, we have secured and completed a commercial site master plan in Barcelona for Habitat Grupo Inmobiliario and are now working on a 505 hectare master plan for a new town in Kozino, Russia.

Interior design has also been increasingly active. A commission for the Independent Police Complaints Commission was completed this year and the Company has projects for new offices for the Driver and Vehicle Licencing Agency in Swansea and a new HQ for Microsoft in Athens. These are supplemented by regular projects arising under existing framework agreements with BT, the Royal Bank of Scotland and the Office of the Deputy Prime Minister.

We have been active in pursuing Government funded programmes in health and education. These types of projects will take some time to crystallise. Nevertheless we have completed a master plan for Brunel University during the year and are currently involved in the design of a knowledge laboratory for a collaboration between the Institute of Education and Birkbeck College, University of London. We have also substantially completed a master planning study for Addenbrookes Hospital, Cambridge and a strategic master plan for the adjacent research & development campus.

In the UK, the Company has won six major industry awards including the "Retail Property Award" for the best retail park for the Orbital Shopping Park, Swindon, and from the British Council for Offices their National award for the fit-out of the new headquarters for BT Wholesale Markets Division near Gatwick and their London region award for the fit-out of the Diageo headquarters building.

For the year ended  
30 September 2003

### **European operations**

Consistency of quality in our design and delivery are the key factors which international clients require in Europe. Aukett's brand concentrates on the integration of marketing and sales and the effective use of our skills and knowledge. There are signs that this approach is bringing some success. We are now undertaking the Moscow HQ for Proctor & Gamble and a refurbishment of BT's office space in Munich. Both of these projects will be ongoing in 2004. The Royal Bank of Scotland has awarded us further project work on their facilities across Europe. Furthermore, we have also substantially completed a major new research facility for General Electric Global Research in Munich with the Facilities Group. We intend to continue this drive and our offices in Warsaw and Prague are well placed to market our services as the European Union welcomes new Eastern European member states in 2004.

As announced in our Interim Report in June 2003, we were taking action to rationalise our overseas operations. We have now disposed of our interest in our Spanish joint venture which made significant losses over the past few years. In addition, we have withdrawn from the management of the Paris based joint venture and as a result we have written off our investment.

### **Management and staff**

The progress the Group has made during the year is in no small way thanks to the skill and enthusiasm of our staff. They have continued to maintain the high standards set both by us and our clients in what is a very demanding and competitive market. We do understand that financial restraints have put increased pressure on management and staff. I am delighted to report that they responded positively to the challenge and made a significant contribution to the changes that have reversed last year's performance. The fact that the Group has won a number of industry awards and many new appointments this year is evidence of their professionalism and quality of work. On behalf of the Board I would like to thank all our employees for their hard work and dedication throughout the year.

### **Summary**

I am pleased that the turnaround outlined in this report has been effected with the resultant small improvement in the Group's balance sheet. This has been led by an improved UK performance. We have dealt with the two badly performing joint ventures. Our remaining European operations are in fragile local markets but they remain an important conduit for delivering services under the Aukett brand to international clients. There has been a modest improvement in net borrowings. The improvement in cash flow should continue next year and the Board believes that it will be sufficient to support a modest infrastructure investment programme, necessary to enhance the Group's competitive advantage, as well as a further reduction in gearing. The Board believes that the Group's profitability will be sustained in 2003/04 but remains cautious about the pace of growth.

### **IGF Mavor**

*Chairman*

11 December 2003



For the year ended  
30 September 2003

### **Overview**

The Group's net assets and shareholders' funds have improved following significant turnaround in profitability in the UK offset by trading difficulties in certain of the overseas entities. The Group has continued to operate within its facilities and these have been renewed for the coming year. The Group has remained profitable throughout the year and this has facilitated a modest reduction in borrowings. Set out below is an explanation of the key financial elements of the Group's performance.

### **Trading results**

Turnover comprises amounts invoiced to clients, excluding value added tax, and represents the key measure for cash flow, planning and control. Work done is the key to profitability and is calculated by adjusting movement in work in progress.

Gross work done, which includes the relevant shares from all companies where the Group has an equity interest, being subsidiaries, joint ventures and the associate, rose by 3% compared to last year. The proportion generated outside the United Kingdom fell to 23% against 33% last year (see note 2 to the financial statements). This reflects an improvement in the UK trading results contrasted with a reduction in overseas operations.

The Group results for the 12 months ended 30 September 2003 show a significant improvement on last year. Operating profit was £530,000 compared to a loss of £1,337,000 in 2002. The results from joint ventures show a loss of £3,000 (2002: loss £568,000). The net interest charge amounted to £219,000 (2002: £209,000) reflecting an increase in the interest rates that the Company is being charged on its banking facilities which came into force in January 2003.

The profit before tax and exceptional items was £308,000 (2002: loss £2,114,000) and the loss before tax was £157,000 compared to £2,447,000 in 2002. The exceptional charge of £465,000 relates to a disposal of one European joint venture and an effective loss of control of another (see note 13). The geographical split of the loss was a profit in the UK of £183,000, which includes the exceptional charge, and a loss of £340,000 from mainland Europe. Net assets have increased to £1.493m from £1.102m in 2002.

European offices continue to be affected by the low level of activity with local and international corporate clients during the year. With the exception of The Netherlands and Poland, the European operations have remained profitable before management charges. As mentioned at the half year, the overheads of the overseas businesses have been restructured to better reflect the current and forecast workloads.

## Financial review

For the year ended  
30 September 2003

### Cash flow and gearing

Tight cash management has resulted in borrowings falling to £1.911m (2002: £2.390m) and gearing has been reduced to 128% (2002: 217%). This has allowed the Group to clear significant creditor overhangs and produce a modest reduction in bank borrowings. It has also resulted in the Group moving back into a net current assets position demonstrating an improvement in financial strength.

The Company has negotiated overdraft facilities with its bankers adequate to accommodate the current and anticipated future working capital requirements. However, the nature of the Group's business is such that there are inherent uncertainties in these matters, the projected working capital requirement being largely dependent on the timing of major new projects and the cash flows arising therefrom. This is explained more fully in note 1.

### Taxation

The taxation credit for the year of £62,000 represents our share of net tax credits in our overseas operations offset against the unwinding of the deferred tax asset in proportion to the utilisation of remaining tax losses. The losses made in the UK and overseas companies in previous years can only be offset against future profits made in those same entities.

### Staff

The average number of staff employed by the Company and its subsidiaries during the year was 200 (2002: 218) and the cost per employee was £36,710 (2002: £34,271), an increase of approximately 7% which has been caused by an increase in social security costs and modest pay rises. These figures exclude temporary staff and those employed by the Group's joint ventures and the associate.

There have been no new grants under the executive share option schemes during the year and similarly no employee has exercised any of their options during the year.

### Acquisitions, Disposals and Investments

Goodwill arising from acquisitions relates to Aukett BV and Aukett SRO and is written off over the expected useful life of the investment. As reported at the half year, the Board has adopted a more prudent treatment of goodwill for these entities, amortising it over 10 years (previously 20 years) from the date of acquisition (see note 10).

During the year we effectively disposed of our interests in our Spanish and French operations. Full details of both transactions are set out in note 13.

Capital investment totalled £113,000 (2002: £375,000). This was primarily funded by way of finance leases over three to five years and consisted mainly of the Group's ongoing investment in information technology, which is necessary to maintain the Group's competitive position. The depreciation charge for the year has fallen to £509,000 (2002: £651,000) which reflects the postponement of capital expenditure.

For the year ended  
30 September 2003

**Risk management**

The internal systems and controls of the Group have been developed over many years with a view to minimising risk. Such systems include ISO 9001 certification across much of the Group and internally specified project cost and management software. High level controls are operated by the Board itself and, where appropriate, delegated to subsidiary or joint venture company boards or management boards.

Interest rate risk is covered to the extent that the Group utilises three to five year finance lease arrangements for its planned capital expenditure. However, the need to maintain a high degree of flexibility for working capital requirements means that banking facilities are currently at floating rates, although this remains under review by the Board.

The foreign currency risk associated with the profits or losses from overseas operations is not hedged. However, hedging is arranged against significant future receipts of foreign currency, either by way of overdraft or foreign exchange contract.

**Patrick Carter**

Group Finance Director

## Directors



**Ian G F Mavor** (Non-Executive Chairman)\* + #

MA, LLB Aged 62

Joined the Company in May 1999. He was appointed non-Executive Chairman in May 2002. From 1994 until 1999 he was executive director of RAC and the group's legal director. He was formerly a non-executive director of The Securities and Futures Authority and a senior IBM executive.



**Geoffrey C Harwood** (Group Managing Director)#

BA, MSc (Arch), CEng, FCIBSE, MinstE Aged 61

Joined the practice as a partner in 1979. He became a main board director on the Company's flotation in 1988 and was appointed Group Operations Director in January 2000. He was appointed Managing Director, UK operations, in May 2002 and Group Managing Director in November 2002.



**Patrick J Carter** (Group Finance Director and Company Secretary)

LLB, ACA Aged 34

Joined the Group in 2001 and is a chartered accountant and barrister. He was appointed company secretary in July 2002 and Group Finance Director in October 2002.



**Stephen A Embley** (Director)

RIBA DipArch Aged 46

Joined the practice in 1986. He was made a director of the UK operation in 1990 and has headed up the hotels and leisure business unit since May 2002. He was appointed to the Group board in June 2003 with additional responsibilities to oversee the management of Group resources.



**Stuart W McLarty** (Group Marketing Director)

RIBA BArch Aged 43

Joined the practice in 1985. He was made a director of the UK operation in 1997 and took over responsibility for UK marketing in May 2002. He was appointed to the Group board in June 2003.



**Paul R G Newman** (Director)

RIBA BA(Arch) Aged 48

Joined the practice in 1981. He was made a director of the UK operation in 1990 and has headed up the transportation and mixed-use development business unit since May 2002. He was appointed to the Group board in June 2003 with additional responsibilities to improve project management and delivery.



**Ian F McQuattie** (Non-Executive Director)\* + #

BSc, FCA, MIMC Aged 57

Joined the Company in July 2001. He is currently Chairman of Stanco Exhibitions Ltd and Mobile Data Technology Plc. From 1990 to 1997 he was Chairman and Chief Executive of Westport Group PLC and until recently he was Chairman of Noble Denton Holdings Ltd.

\* Members of the Audit Committee – Chairman, Ian McQuattie.

+ Members of the Remuneration Committee – Chairman, Ian Mavor.

# Members of the Nomination Committee – Chairman, Ian Mavor.

For the year ended  
30 September 2003

The directors submit their report and the audited financial statements for the year ended 30 September 2003.

#### **Principal activities**

The Group provides professional design services to the property and construction sectors, comprising principally architecture, master planning and urban design, mechanical & electrical engineering, structural engineering, strategic space planning, interior design and graphic design. There has been no change in these activities during the year.

A review of the Group's business and activities during the year and future developments are contained in the Chairman's statement and the financial review on pages 3 to 11.

#### **Results and dividends**

The results for the year are set out in the consolidated profit and loss account on page 26. During the year no interim dividend (2002: £nil) was paid and the directors are not recommending the payment of a final dividend (2002: £nil).

#### **Statement on payment of suppliers**

The Group does not follow any specified code or standard on payment practice. However, it does endeavour to ensure all payments are made within mutually agreed credit terms. In cases where disputes arise, every effort is made to resolve these promptly and amicably to minimise delays in payment. As at 30 September 2003 the average number of billing days outstanding to suppliers of the Group was 64 (2002: 77). The Company had creditors of £38,000 outstanding at 30 September 2003 (2002: £17,000).

#### **Employees**

The Group constantly seeks to keep its employees informed on all aspects of the business affecting them through the operation of structured management meetings, the intranet and in-house publications.

It is the Group's policy to give fair consideration to application for employment by disabled persons wherever practicable and, where existing employees become disabled, every effort is made to find or create suitable positions for them.

#### **Directors**

Brief biographical details of current directors are set out on page 12. Changes to directors during the year and to date are set out below.

Mr P J Carter – appointed 4 October 2002

Mr J W Thake – resigned 31 December 2002

Mr S A Embley – appointed 30 June 2003

Mr S W McLarty – appointed 30 June 2003

Mr P R G Newman – appointed 30 June 2003

Mr A A Lett – resigned 4 August 2003

## Directors' report

For the year ended  
30 September 2003

In accordance with the articles of association, Mr S A Embley, Mr S W McLarty and Mr P R G Newman, who were all appointed to the Board since the last Annual General Meeting, and Mr G C Harwood, by rotation, will be retiring at the meeting and, being eligible, offer themselves for re-election. All directors have service contracts with the Company which are capable of termination by either party giving a minimum of 12 months notice. The interests of the directors serving during the year and their families in the share capital of the Company are set out in the Report on Directors' Remuneration on pages 16 to 20.

### Political and charitable contributions

No political contributions were made during the year. Charitable contributions made during the year amounted to £268 (2002: £352).

### Share capital

The Board is seeking from shareholders at the Annual General Meeting renewal of its authority to allot equity securities up to a maximum aggregate nominal value of £241,404 (representing approximately 33 per cent of the issued ordinary share capital of the Company). The directors have no present intention of allotting any ordinary shares under this authority.

A resolution will also be put to the Annual General Meeting in respect of the issue of equity securities for cash up to an aggregate nominal amount of £36,211, representing five per cent of the issued ordinary share capital, without first offering such shares to shareholders. The directors consider this authority desirable as it will give them the flexibility to make small issues of ordinary shares for cash as suitable opportunities arise without the necessity of first seeking shareholders' approval.

The renewed authorities will expire at the conclusion of the next Annual General Meeting of the Company when it is intended that the directors will again seek their renewal.

### Substantial shareholdings

As at 11 December 2003, the Company had been informed of the following notifiable interests of three percent or more in its share capital:

	Ordinary 1p shares	Percentage of ordinary share capital
Imagina Management SL	9,865,192	13.62
Aimshot Limited	4,000,000	5.52
R H Warner (a former director of the Company)	2,689,012	3.71

Apart from these substantial shareholdings, the directors are not aware of any interest of three percent or more in the share capital of the Company.

For the year ended  
30 September 2002

**Impact of the Euro**

Europe's single currency, the Euro, was adopted for all purposes in those countries participating on 1 January 2002. Sterling continues unaffected for use in the UK. The systems and processes in the Group's European offices have been refined to deal with the Euro and no material problems have been encountered.

Costs to date have been fully expensed and any future costs will be treated likewise. The directors do not believe that any future introduction of the Euro in the UK would be material to the Group's financial condition, operations or liquidity.

**Auditors**

On 12 September 2003, KPMG Audit Plc resigned as auditor to the Group and was replaced by Baker Tilly. A resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of Baker Tilly as auditors of the Company.

**Directors' remuneration report**

In accordance with the Directors' Remuneration Report Regulations 2002, shareholders are being asked in Resolution 2 to approve the Report on Directors' Remuneration for the year ended 30 September 2003. A copy of this report can be found on pages 16 to 20 of the Annual Report.

By order of the Board

**Patrick Carter**

Secretary

11 December 2003

## Report on Directors' Remuneration

For the year ended  
30 September 2003

### Composition and role of the Remuneration Committee

The Remuneration Committee ("the Committee") comprises the two non-executive directors and is chaired by Mr I G F Mavor. Neither member of the committee has any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No director plays a part in any discussion about his or her own remuneration. In determining the directors' remuneration for the year, the Committee consulted Mr G C Harwood (Group Managing Director) about its proposals.

The Committee meets as and when appropriate during the year and is responsible for determining all aspects of the executive directors' remuneration, including share options and the terms and conditions of their service contracts.

The fees of the non-executive directors are determined by the executive directors.

### Remuneration policy

The policy of the Board is to motivate and retain the best executive directors by rewarding them with competitive salary and benefit packages linked to achieving the Group's strategic goals. Performance targets set by the Committee for bonus and incentive schemes are intended to be stretching and reward superior performance.

There are four main elements of the remuneration package for executive directors and senior management:

- Basic annual salary that is reviewed annually having regard to individual performance, responsibility and skills. Executive directors also receive benefits-in-kind comprising private medical insurance and a car or equivalent allowance;
- Performance related annual bonuses, up to a maximum of 75% of the executive directors' salary, that are calculated by reference to a combination of Group profit targets and individual performance targets;
- Share option incentives under the Long Term Incentive Plan ('LTIP') and other share option schemes which are linked to the long-term performance of the Company and thus align the executives' interests with those of the shareholders. The extent to which an award under the LTIP will vest and thus become exercisable, is measured by reference to the growth in the Group's earnings per share over the performance period; and
- The executive directors are members of defined contribution pension schemes and annual contributions are calculated by reference to basic salaries with neither annual bonuses nor awards under the share incentive schemes taken into account in calculating the amounts due.

The Company's policy is that an important part of the remuneration of executive directors should be performance related.

### Share Options

A long term share incentive plan ("the Plan") exists for executive directors of the Company and key senior executives of the Group which involves the award of options to acquire ordinary shares in the Company at nil cost. The ability to exercise these options will be dependent on the Group's performance over a plan cycle compared to objective performance targets set by the Committee and agreed with the Board at the commencement of each plan cycle. It is intended that the performance targets will be demanding.

The actual number of shares to be placed under option to individual participants will depend on a number of factors, including their level of seniority in the Group. No options were granted to executive directors during the year.

For the year ended  
30 September 2003

Cumulative details of options granted in prior years are set out below.

The number of shares that may be acquired upon exercise of the option after the end of the plan cycle will depend upon the Group's actual performance over the plan cycle. Options will normally be granted within 42 days of the announcement by the Company of its interim or final results each year, although options may be granted outside these periods if the Committee considers that there are sufficiently exceptional circumstances to justify the grant of options at that time.

The Committee determined that outstanding performance for the purposes of the first plan cycle, for the three financial years ended 30 September 2003, would be equivalent to 20% compound growth per annum in the consolidated fully diluted earnings per share of the Company, adjusted to take out the effect of exceptional items, over the plan cycle, calculated on an aggregate basis. Similarly the Committee determined that, for the purposes of the first plan cycle, below average performance will be compound growth in fully diluted adjusted earnings per share of less than 7.5% per annum. These performance targets were not met and all options under the plan have now lapsed.

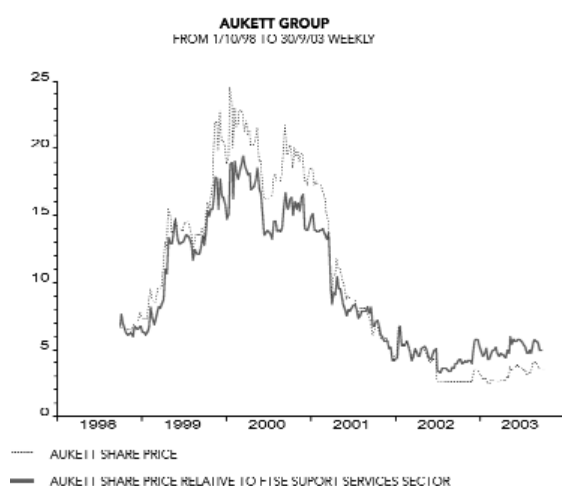
The executive directors also have options granted to them under the terms of the 1988 and 1998 Executive Share Option schemes which are open to all employees although, following the introduction of the LTIP scheme, the executive directors are not eligible to acquire new options. Under that scheme, options are allocated to qualifying employees by reference to profit for the year and basic salary. The exercise of options granted under the various schemes are not dependent upon performance criteria. The exercise price of the options granted under these schemes is equal to the market value of the Company's shares at the time when the options are granted. No options were granted to or exercised by executive directors during the year.

### Pension arrangements

All executive directors are members of the Company's Executive pension scheme, which is a defined contribution scheme for directors and other senior employees of the Group. The contribution rate into the scheme was 27.5% of basic salary for the year ended 30 September 2003 for Messrs Lett, Thake and Harwood (2002: 27.5%) and 13% for Messrs Carter, McLarty, Embley and Newman (2002: 13%). In addition, directors may elect that the Group pays an amount deducted from their salary into a separate executive pension scheme of their choice.

### Performance

Set out below is a Performance Graph that compares the share price performance of the Group's shares with the those of the FTSE support services sector, which the directors view as the most appropriate measure of comparative performance.



The total shareholder return ("TSR") for the 5 year period of -52% compares to a total return provided by the FTSE support sector index of -24%. Whilst the Company's share price performed ahead of the sector until early 2001, the impact of trading statements issued in 2001 and 2002 acted to depress the share price. The TSR for the 12 month period ended 30th September 2003 of 20% is marginally ahead of the equivalent sector return of 18%.

## Report on Directors' Remuneration

For the year ended  
30 September 2003

### Directors service contracts

The Board's policy is to offer service agreements to executive directors with notice periods of not more than 12 months. All executive directors have rolling service contracts with the Company, which are subject to 12 months' notice of termination by either party.

The non-executive directors do not have service contracts with the Company, but the appointment of each is recorded in writing.

### AUDITED INFORMATION

#### Directors' remuneration

Details of emoluments of all directors who served during the year are as follows:

	Performance			Long-term	2003	2002	
	Base	related	Benefits	incentive	Total	Pension	Total
	remuneration	bonus	£000	plan	emoluments	contribution	emoluments
	£000	£000	£000	£000	excl. pension	£000	excl. pension
	£000	£000	£000	£000	£000	£000	£000
<b>Executive</b>							
G C Harwood	82	10	5	-	97	28	94
P J Carter	59	-	3	-	62	8	-
(appointed 4 October 2002)							
S A Embley	16	-	2	-	18	2	-
(appointed 30 June 2003)							
S W McLarty	16	-	2	-	18	2	-
(appointed 30 June 2003)							
P R G Newman	16	-	2	-	18	2	-
(appointed 30 June 2003)							
A A Lett	67	-	5	-	72	20	107
(resigned 4 August 2003)							
J W Thake (see below)	16	-	5	-	21	5	102
(resigned 31 December 2002)							
R H Warner	-	-	-	-	-	-	75
(resigned 19 July 2002)							
<b>Non-executive</b>							
I G F Mavor	30	-	-	-	30	-	23
I F McQuattie	18	-	-	-	18	-	16
A B Brooker	-	-	-	-	-	-	9
(resigned 19 March 2002)							
<b>Total 2003</b>	<b>320</b>	<b>10</b>	<b>24</b>	<b>-</b>	<b>354</b>	<b>67</b>	<b>426</b>
Total 2002	376	-	50	-	426	85	

The benefits include a car or equivalent allowance together with medical, life and permanent health insurance cover. In addition to amounts shown above, cash payments were made to Mr Thake of £30,000 and benefits in kind of £12,336 by way of compensation for loss of office as a director of the Company.

## Report on Directors' Remuneration

For the year ended  
30 September 2003

### Directors' interests

Directors' interests in the shares of the Company, including family interests, were as follows:

	30 September 2003 Ordinary 1p shares	30 September 2002 Ordinary 1p shares
G C Harwood	2,039,898	2,039,898
P J Carter	-	-
S W McLarty	-	-
S A Embley	-	-
P R G Newman	412,368	412,368
I G F Mavor	100,000	100,000
I F McQuattie	-	-

There have been no changes in the above directors' interests since 30 September 2003.

### Share options held under Executive Share Option Plans

Directors' interests in share options granted over the shares of the Company are as follows:

Director	Number of options over ordinary 1p shares at 30 September 2003	Number of options over ordinary 1p shares at 30 September 2002	Exercise price	Earliest exercisable date
G C Harwood	31,354	31,354	5.103p	15 December 1996
	31,354	31,354	5.103p	15 December 1998
P J Carter	31,354	31,354	8.750p	13 July 2004
S A Embley	23,515	23,515	5.103p	15 December 1996
	23,515	23,515	5.103p	15 December 1998
	75,000	75,000	3.250p	8 August 2000
	75,000	75,000	3.250p	8 August 2002
S W McLarty	7,838	7,838	5.103p	15 December 1998
	7,839	7,839	7.000p	4 December 2001
	165,576	165,576	7.250p	24 July 2001
P R G Newman	23,515	23,515	5.103p	15 December 1996
	23,515	23,515	5.103p	15 December 1998
	75,000	75,000	3.250p	8 August 2000
	75,000	75,000	3.250p	8 August 2002

## Report on Directors' Remuneration

For the year ended  
30 September 2003

### Long Term Incentive Plan

Directors' interests in nil cost options made under the terms of the long term share incentive plan are set out below. As explained above, the ability of participants to exercise their options is dependent upon earnings per share growth targets. The value of entitlements under the Plan, calculated by reference to the mid-market share price at 30 September 2003, are as follows:

	Options as at 1 October 2002 or date of appointment	Lapsed	Options as at 30 September 2003	Value of entitlement £000
G C Harwood	142,500	(142,500)	-	-
P J Carter	-	-	-	-
S A Embley	82,041	(82,041)	-	-
S W McLarty	74,861	(74,861)	-	-
P R G Newman	84,027	(84,027)	-	-
	<u>383,429</u>	<u>(383,429)</u>	<u>-</u>	<u>-</u>

The options lapsed on 30 September 2003 at the end of the three year period as performance targets were not met.

There were no contracts of significance with the Company or its subsidiaries in which any of the directors had an interest during the financial year.

### I G F Mavor

*Chairman of the Remuneration Committee, on behalf of the Board.*

11 December 2003

For the year ended  
30 September 2003

### **Statement by the directors**

The Company is required by the London Stock Exchange to publish a statement of compliance with the Principles of Good Governance and Code of Best Practice ("the Combined Code") annexed to the Listing Rules of the Financial Services Authority.

The directors have fully considered the Combined Code and, save as disclosed and explained below, the Board believes that the Company has complied fully with the Combined Code during and since the year ended 30 September 2003.

### **Board of Directors**

The Company is headed by a Board of Directors which leads and controls the Group.

The current Board comprises five executive directors and two non-executive directors. They all bring a wide range of experience and skills to the Company as summarised on page 12.

There is a clear division of responsibilities between the five executives led by Mr G C Harwood, the Group Managing Director. Mr I G F Mavor is the independent non-executive chairman. Mr I F McQuattie is the other independent non-executive director. Both non-executive directors are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The full Board of directors meets at least twelve times a year and retains full and effective control over the Group's activities. The regular meetings review the performance of the Group against budget and strategy, consider specific proposals and matters arising and formulate the Group's policy. Board papers containing appropriate and timely information are circulated in advance of Board meetings to all directors. In addition, all directors are circulated monthly with financial management reports, which give details of the activities and performance of the Group.

Whilst the Board retains final authority over all significant capital investments and borrowing transactions, day to day management is delegated to the executive directors, who meet weekly, operating within an annual budget set by the full Board.

The Company has a procedure in place for directors to take independent professional advice, at the Company's expense, if they feel it is required.

A Statement of directors' responsibilities in respect of preparation of the financial statements is set out on page 23.

### **Audit Committee**

The Audit Committee comprises the two non-executive directors and is chaired by Mr McQuattie. It meets at least twice a year with the external auditors, with the Group Finance Director attending by invitation. If appropriate, the external auditors attend part of each Committee meeting without the presence of the Group Finance Director for independent discussions. The chairman of the Audit Committee reports to the Board on matters discussed at Committee meetings. The composition of the Committee has not complied with provision D 2.1 of the Combined Code, which requires at least three non-executive directors, since 19 March 2002 when Mr Brooker retired as a non-executive director from the Board.

### **Nomination Committee**

The Nomination Committee comprises the two non-executive directors and the Group Managing Director. It is chaired by Mr Mavor and is responsible for nominating new candidates for appointment to the Board. Formal selection criteria and procedures are agreed in advance of any new appointment.

For the year ended  
30 September 2003

#### **Remuneration Committee**

The Remuneration Committee comprises the non-executive directors and is chaired by Mr Mavor. It advises the Board on executive remuneration policy and, in particular, makes recommendations regarding terms of employment of executive directors, their remuneration and the awarding of options and other incentives. The Board has approved terms of reference for the Remuneration Committee. No director is involved in deciding his own remuneration.

The Board's report is given on pages 16 to 20.

#### **Relations with shareholders**

The Company values dialogue with institutional and private shareholders. Various members of the Board attended meetings with analysts and institutional investors during the year ended 30 September 2003 and intend to continue this practice. The Board uses the Company's Annual General Meeting and the meetings with private client stockbrokers to communicate with private investors. In addition, the Company has a website ([www.aukett.com](http://www.aukett.com)) through which shareholders can access information on the Group.

#### **Internal Controls**

The directors acknowledge that they are responsible for the Company's system of internal controls and for reviewing its effectiveness. The provisions of the Combined Code in respect of internal controls, require that directors review all controls including operational, compliance and risk management, as well as financial controls. The Company carries out regular reviews of its database of risks and their associated internal controls. As a result of the analysis carried out during the year ended 30 September 2003, changes have been made to the way in which the business is managed and monitored. Procedures have been established and documented to review existing risks and consider new risks, whilst at the same time evaluating and managing them. Risk management and internal control are considered by Directors at regular Board meetings. Any such system of control is designed to manage rather than eliminate risk and can provide only reasonable, but not absolute, assurance against material misstatement or loss.

The Company does not have an internal audit function. This is presently not considered necessary given the size of the Company and the close involvement of executive directors and senior management.

The main features of the Group's framework for internal control which operate within the established organisation structure with formally defined areas of responsibility are:

- a comprehensive budgeting system with an annual budget approved by the Board;
- the monthly comparison of actual results and cash flow as compared with budget and forecasts prepared on a regular basis and broken down into business drivers;
- a review of performance against key business drivers on a weekly basis by the executive directors;
- the review of contract risk areas on a weekly basis by the executive directors and the regular consideration of key risks and risk management programmes by the full Board;
- a comprehensive set of policies and procedures in place which cover authorisation, segregation of duties, recording of data and ownership;

For the year ended  
30 September 2003

- a project quality management system, certified under ISO 9001 across much of the Group, which brings consistency and auditability to the design process; and
- a health and safety policy, designed to provide and maintain safe, healthy working conditions, equipment and systems for all the Group's employees and to provide relevant information, training and supervision for this purpose.

### **Going Concern Basis**

After making enquiries and as more fully described in note 1, the directors consider that the Group has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently, they continue to adopt the going concern basis in preparing the accounts.

### **Statement of directors' responsibilities**

In respect of the  
preparation of  
financial statements

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on the following page, is made for the purpose of clarifying for shareholders the respective responsibilities of the directors and the auditors in the preparation of the accounts.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

## Independent auditor's report

To the members of  
Aukett Group Plc

We have audited the financial statements on pages 26 to 46. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Report on Directors' Remuneration under the heading "Audited information" ("the auditable part")

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

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the Report on Directors' Remuneration and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the Report on Directors' Remuneration in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Report on Directors' Remuneration have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Report on Directors' Remuneration, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

To the members of  
Aukett Group Plc

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Report on Directors' Remuneration. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

### **Going concern**

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the financing position of the Group. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2003 and of the Group profit for the year then ended; and
- the financial statements and the auditable part of the Report on Directors' Remuneration have been properly prepared in accordance with the Companies Act 1985.

### **BAKER TILLY**

Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST  
11 December 2003

## Consolidated profit and loss account

For the year ended  
30 September 2003

	Notes	2003 £000	2002 £000
<b>Group turnover</b>	2	<b>14,032</b>	13,677
Movement in amounts recoverable on contracts	2	<b>(477)</b>	(575)
<b>Group work done</b>	2	<b>13,555</b>	13,102
<b>Group operating profit/(loss)</b>	3	<b>530</b>	(1,337)
Share of operating loss in joint ventures and associate		<b>(3)</b>	(568)
Exceptional charges:			
Impairment of goodwill in joint ventures		-	(333)
Loss on disposal of joint ventures	4	<b>(465)</b>	-
<b>Profit/(loss) on ordinary activities before interest and tax</b>		<b>62</b>	(2,238)
Net interest payable	5	<b>(219)</b>	(209)
<b>Loss on ordinary activities before tax</b>	6	<b>(157)</b>	(2,447)
Tax credit on loss on ordinary activities	8	<b>62</b>	77
<b>Loss on ordinary activities after tax</b>		<b>(95)</b>	(2,370)
Dividends		-	-
<b>Retained loss for the year</b>	21	<b>(95)</b>	(2,370)
<b>Basic and diluted loss per share</b>	9	<b>(0.13p)</b>	(3.27p)

There is no difference between the profit on ordinary activities before taxation and the retained profit for the Group stated above and their historical cost equivalents.

Except as disclosed in note 13, all operations are continuing.

**Consolidated  
balance sheet**

At 30 September 2003

		2003		2002	
	Notes	£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	10		503		595
Tangible assets	11		679		1,120
Investments in joint ventures:					
Share of gross assets		349		242	
Share of gross liabilities		<u>(311)</u>		<u>(213)</u>	
	12		38		29
Investment in associate	12		<u>28</u>		<u>25</u>
			1,248		1,769
<b>Current assets</b>					
Debtors	14	6,239		6,624	
Cash at bank and in hand		<u>246</u>		<u>429</u>	
		6,485		7,053	
Creditors falling due within one year	16	<u>(6,092)</u>		<u>(7,488)</u>	
<b>Net current assets/(liabilities)</b>			<u>393</u>		<u>(435)</u>
<b>Total assets less current liabilities</b>			<u>1,641</u>		<u>1,334</u>
Creditors falling due after one year	17		<u>(148)</u>		<u>(232)</u>
<b>Net assets</b>			<u>1,493</u>		<u>1,102</u>
<b>Capital and reserves</b>					
Called up share capital	20		724		724
Share premium account	21		1,794		1,794
Profit and loss account	21		<u>(1,025)</u>		<u>(1,416)</u>
<b>Equity shareholders' funds</b>			<u>1,493</u>		<u>1,102</u>

The notes on pages 31 to 46 form part of these financial statements.

Approved by the Board of Directors on 11 December 2003 and signed on its behalf by:

**G C Harwood**  
**P J Carter**  
Directors

## Company balance sheet

At 30 September 2003

		2003		2002	
	Notes	£000	£000	£'000	£000
<b>Fixed assets</b>					
Investments	12		<b>2,697</b>		2,752
<b>Current assets</b>					
Debtors	14	<b>301</b>		500	
Cash at bank and in hand		-		11	
		<b>301</b>		511	
Creditors falling due within one year	16	<b>(1,000)</b>		(927)	
<b>Net current liabilities</b>			<b>(699)</b>		(416)
<b>Total assets less current liabilities</b>			<b>1,998</b>		2,336
<b>Net assets</b>			<b>1,998</b>		2,336
<b>Capital and reserves</b>					
Called up share capital	20		<b>724</b>		724
Share premium account	21		<b>1,794</b>		1,794
Profit and loss account	21		<b>(520)</b>		(182)
<b>Equity shareholders' funds</b>			<b>1,998</b>		2,336

The notes on pages 31 to 46 form part of these financial statements.

Approved by the Board of Directors on 11 December 2003 and signed on its behalf by:

**G C Harwood**

**P J Carter**

Directors

**Statement of total  
recognised gains  
and losses**

	2003 £000	2002 £000
Loss for the financial year	(95)	(2,370)
Foreign exchange differences	<u>69</u>	<u>-</u>
Total gains and losses recognised in the year	<u>(26)</u>	<u>(2,370)</u>

For the year ended  
30 September 2003

**Reconciliation  
of movements  
in shareholders'  
funds**

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
Opening shareholders' funds	1,102	2,336	3,472	2,696
Exchange movement	69	-	-	-
Reinstatement of goodwill written off to reserves	417	-	-	-
Loss attributable to shareholders	<u>(95)</u>	<u>(338)</u>	<u>(2,370)</u>	<u>(360)</u>
<b>Shareholders' funds at 30 September</b>	<u>1,493</u>	<u>1,998</u>	<u>1,102</u>	<u>2,336</u>

For the year ended  
30 September 2003

**Consolidated  
cash flow  
statement**

For the year ended  
30 September 2003

	Notes	2003		2002	
		£000	£000	£000	£000
<b>Net cash inflow/(outflow) from operating activities</b>	24		<b>746</b>		(205)
<b>Returns on investments and servicing of finance</b>			<b>(218)</b>		(198)
<b>Taxation</b>			<b>(9)</b>		(286)
<b>Capital expenditure</b>					
Purchase of tangible fixed assets			<b>(9)</b>		(91)
<b>Acquisitions and Disposals</b>					
Investment in subsidiary undertakings		-		(3)	
Investment in joint ventures		-		(2)	
Disposal of investment in joint venture		<b>28</b>		-	
			<b>28</b>		(5)
<b>Net cash inflow/(outflow) before financing</b>			<b>538</b>		(785)
<b>Financing</b>					
Repayment of loans		<b>(120)</b>		(80)	
Principal repayments under hire purchase contracts and finance leases		<b>(328)</b>		(460)	
<b>Net cash outflow from financing</b>			<b>(448)</b>		(540)
<b>Increase/(decrease) in cash</b>			<b>90</b>		(1,325)
<b>Reconciliation of net cash flow to movement in net debt</b>					
Increase/(decrease) in cash for the year			<b>90</b>		(1,325)
Cash outflow from decrease in debt			<b>448</b>		540
New finance leases			<b>(59)</b>		(283)
Movement in net debt during the year			<b>479</b>		(1,068)
Net debt at 1 October 2002			<b>(2,390)</b>		(1,322)
<b>Net debt at 30 September 2003</b>	25		<b>(1,911)</b>		(2,390)

For the year ended  
30 September 2002

## 1 Accounting policies

The principal accounting policies which have been applied consistently in the preparation of these financial statements are:

### (a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985.

The Group meets its day to day working capital requirements through an overdraft facility which is repayable on demand.

The nature of the Group's business is such that there can be considerable uncertainty over the timing of major projects and the commencement of cash flows arising therefrom. The directors have prepared projected cash flow information for the next twelve months and they consider that the Group will continue to operate within the overdraft facility recently agreed, which expires on 30 November 2004. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. However, the margin of facilities over requirements is not large and inherently there can be no certainty as to these matters and, in the event that projects are delayed or expectations included in the directors' projections are otherwise not met, the Group may need to renegotiate its banking facilities. The financial statements do not include any adjustments that would result from a failure by the Group to obtain adequate future funding.

### (b) Basis of consolidation

The consolidated financial statements incorporate the accounts of the Company and its subsidiaries. The consolidated profit and loss account also includes the Group's share of the results of all associated undertakings as defined by the Companies Act 1985. In accordance with FRS9, Associates and Joint Ventures, those associated undertakings which the Group jointly controls with another party are classified as joint ventures, whereas those in which the Group exercises significant influence without joint control are classified as associates.

### (c) Goodwill

On the acquisition of subsidiaries, businesses and associated undertakings, fair values are attributed to the Group's share of the net tangible assets acquired. Where the cost of acquiring such net tangible assets exceeds the values attributed to them, the resultant difference is treated as goodwill, which is capitalised and amortised over its useful life up to a maximum of twenty years.

### (d) Foreign currency

Profit and loss accounts of overseas associated undertakings are translated into sterling at average rates for the year or relevant period since acquisition. Exchange gains and losses arising in the ordinary course of business are dealt with through the profit and loss account.

**Notes to the  
financial  
statements**

For the year ended  
30 September 2003

Assets and liabilities denominated in foreign currencies and the balance sheets of overseas associated undertakings are translated into sterling at the rates of exchange prevailing at the balance sheet date.

Exchange differences arising in the consolidated accounts on the re-translation at closing rates of the Group's net investments in overseas associated undertakings are recorded as a movement on reserves and are reported in the statement of total recognised gains and losses.

(e) Turnover and work done

Work done represents turnover (being fees invoiced in the ordinary course of business (excluding value added tax), adjusted for movements in the level of amounts recoverable on contracts. Amounts recoverable on contracts are stated at cost plus attributable profits on long term contracts less provision for estimated losses and on short term contracts at the lower of cost and net realisable value. Cost includes direct staff costs and outlays together with a proportion of attributable overheads. Attributable profits on long term fixed price contracts are recognised on the percentage of completion method based on the proportion of costs incurred to the total estimated costs. Fees rendered on account are deducted from amounts recoverable on contracts and, to the extent that they exceed the value of work done, are included in creditors as payments on account.

(f) Pensions

The Group operates defined contribution schemes funded by the Group and employees. The schemes' funds are administered by trustees independently of the Group's finances and contributions are charged against the profits of the period in which they become payable.

(g) Tangible fixed assets

Depreciation is calculated so as to write off the cost of tangible fixed assets over their expected useful lives using the following methods and rates:

	Rate	Method
Leasehold improvements	Over unexpired term of lease	Straight line
Furniture and equipment:		
furniture and fittings	10% p.a.	Straight line
computer equipment	20% p.a.	Straight line
telephone equipment	15% p.a.	Straight line
assets held under finance leases	Over unexpired term of lease	Straight line
Motor vehicles	25% p.a.	Reducing balance

(h) Leased assets

Fixed assets acquired under hire purchase agreements and finance leases are capitalised and depreciated in accordance with the depreciation policy. Obligations under such agreements are included in creditors, net of finance charges allocated to future years. Finance charges are charged to the profit and loss account based on the actuarial method. The costs of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

For the year ended  
30 September 2003

(i) Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes in accordance with FRS 19, Deferred Tax. The deferred tax balance has not been discounted.

**2 Turnover and work done**

An analysis of turnover and work done by geographical area of destination is as follows:

	2003			2002		
	United Kingdom £000	Rest of Europe £000	Total £000	United Kingdom £000	Rest of Europe £000	Total £000
<b>Turnover</b>						
Gross turnover	12,152	3,484	15,636	11,055	4,544	15,599
Less: Share of joint ventures	-	(1,204)	(1,204)	-	(1,738)	(1,738)
Share of associate	-	(400)	(400)	-	(184)	(184)
<b>Group turnover</b>	<b>12,152</b>	<b>1,880</b>	<b>14,032</b>	<b>11,055</b>	<b>2,622</b>	<b>13,677</b>
<b>Movement in amounts recoverable on contracts</b>						
Gross movement	(535)	27	(508)	(1,159)	303	(856)
Less: Share of joint ventures	-	37	37	-	262	262
Share of associate	-	(6)	(6)	-	19	19
<b>Group movement in amounts recoverable on contracts</b>	<b>(535)</b>	<b>58</b>	<b>(477)</b>	<b>(1,159)</b>	<b>584</b>	<b>(575)</b>
<b>Work done</b>						
Gross work done	11,617	3,511	15,128	9,896	4,847	14,743
Less: Share of joint ventures	-	(1,167)	(1,167)	-	(1,476)	(1,476)
Share of associate	-	(406)	(406)	-	(165)	(165)
<b>Group work done</b>	<b>11,617</b>	<b>1,938</b>	<b>13,555</b>	<b>9,896</b>	<b>3,206</b>	<b>13,102</b>

A further analysis of amounts recoverable on contracts is given in note 15.

All the Group's activities fall within a single segment as detailed in the directors' report on page 13.

**Notes to the  
financial  
statements**

For the year ended  
30 September 2003

<b>3 Group operating profit/(loss)</b>	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Group work done	13,555	13,102
Staff costs (see note 7)	(7,342)	(7,471)
Amortisation of goodwill (see note 10)	(92)	(29)
Depreciation (see note 11)	(509)	(651)
Other operating charges	(5,082)	(6,288)
<b>Group operating profit/(loss)</b>	<b>530</b>	<b>(1,337)</b>

All operating profit in 2003 and 2002 derives from continuing operations.

**4 Loss on disposal of joint ventures**

The loss on disposal of joint ventures comprises a £417,000 loss from the disposal of the Group's interest in the share capital of Aukett Imagina SL and a loss of £48,000 arising on the effective disposal of Aukett Art & Build SELARL. Further details are set out in note 13.

**5 Net interest payable**

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Interest on bank loan and overdrafts wholly repayable within five years	148	126
Finance lease and hire purchase interest	54	67
Other interest payable and similar charges	20	76
Interest receivable	(3)	(60)
	<b>219</b>	<b>209</b>

For the year ended  
30 September 2003

**6 (Loss)/profit on ordinary activities before taxation**

An analysis of (loss)/profit on ordinary activities before taxation by geographical area is as follows:

	2003			2002		
	United Kingdom	Rest of Europe	Total	United Kingdom	Rest of Europe	Total
	£000	£000	£000	£000	£000	£000
Company and subsidiaries	183	(337)	(154)	(1,660)	(219)	(1,879)
Share of joint ventures	-	(4)	(4)	-	(529)	(529)
Share of associate	-	1	1	-	(39)	(39)
Group total	<u>183</u>	<u>(340)</u>	<u>(157)</u>	<u>(1,660)</u>	<u>(787)</u>	<u>(2,447)</u>

	2003	2002
	£000	£000

(Loss)/profit on ordinary activities before taxation, excluding the share of results from joint ventures and the associate, is stated after charging:

Goodwill:

amortisation	92	29
impairment	-	333

Depreciation:

owned assets	183	195
leased assets	326	456

Operating lease rentals:

hire of plant and equipment	173	137
other	663	629

Auditors' remuneration for audit services	<u>70</u>	<u>74</u>
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Remuneration of the Company's auditors for the provision of non-audit services to the Group amounted to £28,045 (2002: £25,180) and was in respect of taxation compliance and other advisory matters. No audit fees were incurred by the Company (2002:£nil).

**Notes to the  
financial  
statements**

For the year ended  
30 September 2003

**7 Employees**

The average number of persons employed by the Group during the year, including directors, was as follows:

	<b>2003</b>	2002
	<b>Number</b>	Number
Professional	<b>165</b>	172
Administrative	<b>35</b>	46
	<b><u>200</u></b>	<u>218</u>

The costs of employing the above staff were as follows:

	<b>2003</b>	2002
	<b>£000</b>	£000
Wages and salaries:		
basic	<b>6,297</b>	6,390
performance related bonuses	<b>29</b>	24
social security costs	<b>735</b>	666
other pension costs	<b>281</b>	391
	<b><u>7,342</u></b>	<u>7,471</u>

The total of emoluments paid to, or receivable by, directors in respect of qualifying service was £354,000 (2002: £426,000). Further details are included in the Report on Directors' Remuneration on pages 16 to 20. All pension costs were incurred in relation to defined contribution schemes.

**8 Tax credit on loss on ordinary activities**

	<b>2003</b>	2002
	<b>£000</b>	£000
UK corporation tax at 30% based on the (loss)/profit for the year (2002: 30%)	-	64
Overseas tax credit/(charge)	<b>118</b>	(23)
Adjustments in respect of previous years	-	(84)
Share of tax of joint ventures and associates	<b>(19)</b>	10
Current tax credit/(charge) for the year	<b>99</b>	(33)
Deferred tax (note 19)	<b>(37)</b>	110
	<b><u>62</u></b>	<u>77</u>

For the year ended  
30 September 2003

## 8 Tax credit on loss on ordinary activities (continued)

Reconciliation of tax charge:

	2003	2002
	£000	£000
Tax credit on loss on ordinary activities before tax at the standard tax rate of 30% (2002: 30%)	47	734
Effects of		
Non-deductible expenses	(40)	(329)
Depreciation add back	(46)	(44)
Capital allowances	31	40
Adjustment to previous periods	-	(84)
Unused tax losses utilised/(carried forward)	82	(350)
Differences in overseas tax rates	25	-
Current tax credit/(charge) for the year	<u>99</u>	<u>(33)</u>

## 9 Loss per share

The loss per share is calculated on the loss attributable to shareholders of £95,000 for the year ended 30 September 2003 (2002: £2,370,000 loss) and on 72,421,394 (2002: 72,421,394) ordinary shares, being the weighted average number in issue during the year. There is no additional dilution to report in either year in accordance with FRS 14, Earnings per Share.

## 10 Intangible fixed assets

Goodwill	£000
Cost	
At 1 October 2002	1,093
Arising during the year	-
<b>At 30 September 2003</b>	<b><u>1,093</u></b>
Amortisation	
At 1 October 2002	498
Charge for the year	92
<b>At 30 September 2003</b>	<b><u>590</u></b>
Net book value	
<b>At 30 September 2003</b>	<b><u>503</u></b>
At 30 September 2002	<u>595</u>

Goodwill is amortised over a maximum period of 20 years.





## Notes to the financial statements

For the year ended  
30 September 2003

### 12 Fixed asset investments (continued)

Investments comprise the following companies:

Name	Nature of business	Class and proportion of shares held
<u>Subsidiaries</u>		
<b>Aukett Limited</b> (registered in England and Wales)	Design consultancy in the United Kingdom	100% ordinary*
<b>Aukett sro</b> (incorporated in the Czech Republic with issued share capital of CZK 100,000)	Design consultancy in the Czech Republic	100% ordinary*
<b>Aukett bv</b> (incorporated in The Netherlands with issued share capital of 120 Dfl 1,000 shares)	Design consultancy in The Netherlands	100% ordinary*
<b>Aukett Polska sp. z o. o.</b> (incorporated in Poland with issued share capital of 1,500 PLN 100 shares)	Design consultancy in Poland	100% ordinary*
<b>Aukett d.o.o</b> (incorporated in Croatia with issued share capital of 20,000 Kuna)	Design consultancy in Croatia	100% ordinary*
All subsidiaries have been included in the consolidated Group figures.		
<u>Joint ventures</u>		
<b>Aukett + Garretti srl</b> (incorporated in Italy with issued share capital of Euro 20,000)	Design consultancy in Italy	50%*
<b>Aukett + Heese Frankfurt GmbH</b> (incorporated in Germany with issued share capital of Euro 60,000)	Design consultancy in Germany	50%*
<b>Aukett+Studio 100</b> (incorporated in Hungary with issued share capital of 3 million Forint)	Design consultancy in Hungary	50%*
<u>Associate</u>		
<b>Aukett+Heese GmbH</b> (incorporated in Germany with issued share capital of DM 12,000)	Design consultancy in Germany	25% ordinary *
<u>Investment</u>		
<b>Aukett + Art&amp;Build Paris SELARL</b> (incorporated in France with issued share capital of FFr 50,000)	Design consultancy in France	25%*

\* Investment held by Company

Albert Bridge Limited was struck off the register at Companies House on 25 March 2003.

For the year ended  
30 September 2003

### 13 Disposal of joint ventures

*Spain : Aukett Imagina SL*

On 16th July 2003 the Group sold its 50% interest in the ordinary share capital of Aukett Imagina SL to its Joint Venture partner in Spain, Imagina Management SL, for cash consideration of 40,000 (£28,000) and the assumption by Imagina Management SL of all liabilities. At the date of the disposal, the share of the cumulative losses of the undertaking recorded in the Group's books amounted to £168,000.

Goodwill of £417,000, which relates to the acquisition of the first tranche of Aukett Imagina SL, was eliminated against reserves in accordance with SSAP 22 in the financial year ended 30 September 1998. On disposal of the Group's interest in Aukett Imagina SL, FRS 10 Accounting for Goodwill, requires that goodwill previously eliminated directly against reserves is brought into the profit and loss account as a component of the profit or loss on disposal (see note 21). This has given rise to an exceptional loss on disposal which is offset against a corresponding movement in reserves.

*France : Aukett Art & Build SELARL*

The Group no longer exercises either joint control or significant influence over Aukett Art & Build SELARL. In accordance with FRS 9, it is no longer appropriate to treat the entity as either a joint venture or as an associate. Consequently, the entity has been accounted for as a simple investment and all liabilities, to the extent that the Group is obliged to pay, have been provided. At the effective date of the loss of influence, share of the cumulative losses of the undertaking recorded in the Group's books amounted to £282,000.

### 14 Debtors

	2003		2002	
	Group	Company	Group	Company
	£000	£000	£000	£000
Amounts recoverable on contracts (note 15)	435	-	695	-
Trade debtors	4,678	-	4,379	-
Amounts owed by subsidiary undertakings	-	180	-	163
Amounts owed by associated undertakings (including joint ventures and the associate)	264	109	703	334
Deferred tax asset (note 19)	73	-	110	-
Other debtors	233	4	230	3
Prepayments and accrued income	556	8	507	-
	<b>6,239</b>	<b>301</b>	<b>6,624</b>	<b>500</b>

## Notes to the financial statements

For the year ended  
30 September 2003

### 15 Amounts recoverable on contracts

Payments on account, as included in creditors, exceeded amounts recoverable on contracts, as included in debtors, by £1,011,000 at 30 September 2003 (2002: £534,000). These amounts comprise:

	2003		2002	
	Amounts recoverable on contracts £000	Payments on account £000	Amounts recoverable on contracts £000	Payments on account £000
Value of work done	18,090	5,006	19,285	7,724
Fees rendered on account	(17,655)	(6,452)	(18,590)	(8,953)
	<u>435</u>	<u>(1,446)</u>	<u>695</u>	<u>(1,229)</u>

### 16 Creditors: amounts due within one year

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
Bank loans and overdrafts (see below)	1,871	3	2,264	-
Hire purchase and finance lease creditor	138	-	323	-
Trade creditors	993	38	1,509	17
Payments on account (note 15)	1,446	-	1,229	-
Amounts owed to subsidiary undertakings	-	934	-	883
Corporation tax	49	-	52	-
Other taxes and social security	763	-	926	-
Interest in net liabilities of joint ventures (note 12)	140	-	549	-
Other creditors and accruals	692	25	636	27
	<u>6,092</u>	<u>1,000</u>	<u>7,488</u>	<u>927</u>

There are no outstanding contributions payable to the Company's pension schemes (2002: £17,000).

Included within bank loans and overdraft is an amount of £40,000 representing installments payable on the loan from Coutts & Co (2002: £160,000). The loan was fully repaid in October 2003.

Coutts & Co holds a debenture over all the present and future assets of Aukett Limited in order to secure borrowings under the bank overdraft.

For the year ended  
30 September 2003

**17 Creditors: amounts due after one year**

	<b>2003</b>	2002
	<b>Group</b>	Group
	<b>£000</b>	£000
Hire purchase and finance lease creditor:		
wholly repayable between one and two years	85	123
repayable by installments between two and five years	63	109
	<b>148</b>	232

The current element of the hire purchase and finance lease creditor is included within creditors due within one year.

**18 Derivatives and other financial instruments**

The Group has taken advantage of the exemption under FRS13 that short term debtors and creditors, apart from borrowings, be excluded from the following disclosures.

The Group's exposure to market price risk arises from currency and interest rate fluctuations. The Board's policy towards currency risk, which usually relates to the Group's foreign currency earnings, is to minimise all exposures that are likely to impact on reported profit by utilising matching foreign currency contracts or cash or overdraft balances. At 30 September 2003 the Group's assets included net foreign currency debtor balances amounting to £707,000 which were predominantly in Euro. The underlying value of the Group's foreign currency investments, being predominately the subsidiaries in Amsterdam and Prague, are not protected against exchange rate fluctuations. This matter remains under review.

The Group's borrowings are arranged such that, in the opinion of the directors, interest rate exposure is minimised as far as possible.

The Group's long term borrowings consist of fixed rate hire purchase agreements and finance leases. Details of these financial liabilities are disclosed in notes 16 and 17 above. Short term flexibility in liquid resources is achieved by overdraft facilities. At 11 December 2003 these facilities, where all conditions precedent have been met, were as follows:

Expiring on 30 November 2004:	£000
Overdraft facilities in Sterling or Euro, up to	2,100

## Notes to the financial statements

For the year ended  
30 September 2003

### 19 Deferred tax asset

	2003 Group £000	2002 Group £000
Deferred tax asset		
Balance at 1 October 2002	110	-
Increase in asset	-	110
Released to profit and loss account	(37)	-
Balance at 30 September 2003	<u>73</u>	<u>110</u>

The directors are of the opinion, based on recent and forecast trading, that the level of profits in the foreseeable future will be sufficient to fully utilise the asset.

### 20 Called up share capital

	2003 No. of shares 000	2002 No. of shares 000
Ordinary shares of 1p each		
Authorised:		
At 30 September	<b>145,416</b>	145,416
Allotted, called up and fully paid:		
<b>At 30 September</b>	<b>72,421</b>	72,421

Under the Company's executive share option schemes, options over ordinary 1p shares have been granted, and have not lapsed or been surrendered, to certain employees under the following terms:

No of shares	Exercise Price	Earliest Exercisable Date	Date of Expiry
137,170	5.103p	15 December 1996	14 December 2003
192,038	5.103p	15 December 1998	14 December 2003
43,113	7.00p	24 December 1999	23 December 2006
74,466	7.00p	24 December 2001	23 December 2006
450,000	3.25p	8 August 2000	7 August 2007
450,000	3.25p	8 August 2002	7 August 2007
165,676	7.25p	24 July 2001	23 July 2008
259,736	7.25p	7 January 2002	6 January 2009
212,704	14.00p	6 July 2002	5 July 2009
458,264	18.25p	7 January 2003	6 January 2010
31,354	16.25p	28 June 2003	27 June 2010
249,470	18.25p	12 January 2004	11 January 2011
75,678	8.75p	13 July 2004	12 July 2011

**Notes to the  
financial  
statements**

For the year ended  
30 September 2003

**21 Reserves**

	Group		Company	
	Share premium account	Profit and loss account	Share premium account	Profit and loss account
	£000	£000	£000	£000
At 1 October 2002	1,794	(1,416)	1,794	(182)
Reinstatement of goodwill written off to reserves	-	417	-	-
Exchange gain	-	69	-	-
Retained loss for the year	-	(95)	-	(338)
<b>At 30 September 2003</b>	<b>1,794</b>	<b>(1,025)</b>	<b>1,794</b>	<b>(520)</b>

In accordance with the provisions of section 230 of the Companies Act 1985 a separate profit and loss account for the Company is not presented. The loss for the year dealt with in the profit and loss account of the Company amounted to £338,000 (2002: loss £360,000).

**22 Commitments**

At 30 September 2003 the Group had annual commitments under operating leases as follows:

	2003		2002	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Expiring within one year	128	46	36	107
Expiring between two and five years	538	13	188	59
Expiring after five years	23	-	485	-
	<b>689</b>	<b>59</b>	<b>709</b>	<b>166</b>

Save as outlined above the Group had no other capital commitments at 30 September 2003 (2002: £Nil).

**23 Related party transactions**

The Group has provided professional design services to its associate Aukett + Heese GmbH and one of its joint ventures Aukett + Garretti srl, on an arm's length basis. Aggregate turnover recorded by the Group during the year in respect of these services amounted to £67,949 and £84,684 respectively. Amounts due to the Group at 30 September 2003 from the associate company was £85,000 and the total due from the joint venture companies was £244,000.

The Group purchased management consultancy services from AVE Associates, an entity controlled by Mr McQuattie, a non-executive director of the Company. Fees paid in the year totalled £18,000 and were arranged on an arm's length basis.

**Notes to the  
financial  
statements**

For the year ended  
30 September 2003

**24 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities**

	2003	2002
	£000	£000
Operating profit/(loss)	530	(1,337)
Depreciation of tangible fixed assets	509	651
Amortisation of goodwill	92	29
Decrease in debtors	389	286
(Decrease)/increase in creditors	(774)	166
<b>Net cash inflow/(outflow) from operating activities</b>	<b>746</b>	<b>(205)</b>

**25 Analysis of net debt**

	At 1 October 2002	Cashflow	Non-cash movements	At 30 September 2003
	£000	£000	£000	£000
Cash at bank and in hand	429	(183)	-	246
Overdrafts repayable on demand	(2,104)	273	-	(1,831)
	(1,675)	90	-	(1,585)
Bank and other loans repayable in less than one year	(160)	120	-	(40)
Finance leases and hire purchase contracts	(555)	328	(59)	(286)
	(715)	448	(59)	(326)
<b>Net debt</b>	<b>(2,390)</b>	<b>538</b>	<b>(59)</b>	<b>(1,911)</b>

During the year the only non-cash transactions that the Group entered into related to new finance leases which had a total value at inception of £59,000. At 30 September 2003 the outstanding balance on these leases amounted to £54,000.



## Notice of meeting

### Notes

1 Any member entitled to attend and vote at the meeting may appoint another person, whether a member or not, as his proxy to attend and, on a poll, to vote instead of him. A form of proxy is enclosed for this purpose and to be valid must be lodged with the Company's registrars together with any power of attorney or other authority under which it is signed, not less than 48 hours before the time appointed for the meeting. Completion and return of the form of proxy will not preclude a member from attending and voting at the meeting.

2 Copies of the directors' service contracts with the Company are available for inspection during normal business hours at the registered office of the Company and will be available for inspection at the place of the meeting from 15 minutes prior to the meeting until its conclusion.

3 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the relevant register of members (the "Register") for certificated or uncertificated shares of the Company (as the case may be) at 11.00 am on Monday 26 January 2004 (the "Specified Time") will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at that meeting. Should the meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. Should the meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in the notice.

## Shareholder information

### Annual General Meeting

27 January 2004

### Share price

The Company's mid-market share price is published in the following daily newspapers:

The Financial Times

The Daily Telegraph

(London) Evening Standard

In addition, the latest dealing prices can be obtained by telephoning FT Cityline on 0906 0034 795.

At the time of publication such calls are being charged at the premium rate of 60p per minute.

### Further information

Further information about the Group, including additional copies of this annual report and recent press releases sent to the London Stock Exchange, may be obtained from the Company's registered office at 2 Great Eastern Wharf, Parkgate Road, London, SW11 4TT. Such information is also held on the Company's website at [www.aukett.com](http://www.aukett.com). In addition, the Company Secretary may be contacted by email at [cosec@aukett.com](mailto:cosec@aukett.com).

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