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Pursuit Dynamics plc

Annual Report

for the period

17 August 2000 to 30 September 2001

Directors, Secretary and Advisors

Directors

Ronald Charles Trenter	*Non-Executive Chairman*
John Gervase Mark Heathcote	*Chief Executive*
Martin Paul Dunham	*Finance Director*
John Henry Clarke	*Non-Executive Director*
Peter Taylor	*Non-Executive Director*

All of whose business address is Unit 1, Anglian Business Park, Orchard Road, Royston, Hertfordshire SG8 5HA

Company secretary

Martin Paul Dunham

Registered office

Unit 1, Anglian Business Park
Orchard Road
Royston
Hertfordshire SG8 5HA

Nominated Advisor and Nominated Broker

Numis Securities
Cheapside House
138 Cheapside
London EC2V 6LH

Auditors

PricewaterhouseCoopers
Abacus House
Castle Park
Cambridge CB3 0AN

Bankers

Barclays Bank
23 High Street
Royston
Hertfordshire SG8 9AB

Registrars

Computershare Investor Services PLC
PO Box 83
The Pavilions
Bridgewater Road
Bristol BS99 7NH

Chairman's Statement

I am pleased to present the first Annual Report of Pursuit Dynamics plc ("the Company") and summarise the events that have occurred in the Group from incorporation on 17 August 2000 until 30 September 2001.

The directors have prepared financial information for the period from incorporation 17 August 2000 to 30 September 2001.

During this period, the Group reported a loss of £1,443,396, which included interest receivable of £55,067. The loss was in line with the board of directors budgeted expenditure for the ongoing development of the Group's Pursuit Marine Drive technology (the "Pursuit Marine Drive").

The directors do not recommend payment of a dividend.

Acquisition of the Marine Propulsion Technology

On 17 August 2000, Pursuit Dynamics Limited was incorporated to acquire the intellectual property rights to an innovative marine propulsion system owned equally by Alan Burns, the inventor, and Carnegie Corporation, an Australian listed company. In November 2000, Pursuit acquired, on a deferred consideration basis, the rights from Alan Burns and commenced to fund the further development of the Pursuit Marine Drive at its facility based in Fremantle, Western Australia.

AIM listing and fundraising

Pursuit Dynamics Limited changed its name to Pursuit Marine Drive Limited and was acquired by Pursuit Dynamics plc on 14 May 2001.

On 23 May 2001, the Company's ordinary shares were admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange, raising £4,200,000 before issue costs of £591,783. At that time, the company paid to Alan Burns £250,000 and issued 5,108,300 ordinary shares to satisfy the deferred consideration to acquire 50% of the intellectual property rights to the Pursuit Marine Drive. Furthermore, the Company paid £150,000 and issued 2,754,150 ordinary shares to Carnegie Corporation to acquire an additional 25% of the rights to the Pursuit Marine Drive.

In July 2001, the Company issued a further 2,754,150 ordinary shares to acquire the final 25% of the rights to the Pursuit Marine Drive from Carnegie Corporation. Pursuit Dynamics plc now owns 100% of the Pursuit Marine Drive and is continuing the research and development to take it to commercialisation.

Relocation of research and development to UK and progress to date

Following visits to the research and development facility in Australia, the board of directors concluded, in August 2001, that it was appropriate to relocate the research and development activities to the UK. The rationale behind this decision was to reduce costs, to gain access to broader technical support and to secure more direct control over the research and development programme.

As a result of the transfer to the UK, research and development in Australia ceased. Consequently, on 7 September 2001, Alan Burns resigned as a director of the Company, although he remains available for consultation as required.

Significant progress has been achieved over the last few months with the successful commissioning of the water flume test facility and the establishment of a research and development organisation, both at Royston in Hertfordshire. Developmental test work is now undertaken on a continual basis at this facility. We have a team of specialist technical staff who, in addition to advancing the project internally, are working in conjunction with our external academic and consulting support links both here and abroad.

The advanced test facility was designed and commissioned both to enable us to analyse the "state of the art" of the Pursuit Marine Drive at the time we acquired the technology and to enable us to proceed along the critical paths required to enhance the development of the system towards a level where commercialisation could become realistic. The work successfully undertaken to date has enabled us to acquire a solid understanding of the phenomena involved in the system and, most importantly, to identify specific trajectories that are currently allowing us to work towards the demonstration of a far more efficient system. We believe that we have identified key areas that will allow us to demonstrate these advances in the efficiency of the system by the middle of 2002.

As a result of the work we have completed, we have established a forward development programme for the Pursuit Marine Drive, which is currently underway. Depending on the outcome of our current test programme, the directors anticipate approaching potential joint-venture partners by the end of 2002. I am pleased to report that we are on schedule and within budget at this stage of our programme and that we believe we are making good progress towards the development of a commercially feasible system that has enormous potential in the field of marine propulsion.

The directors believe that the research and development programme is on target when compared to the key milestones set out in the listing prospectus and the board is pleased with the progress to date.

I would like to thank all our employees for their valuable contribution throughout this period and Alan Burns, who originally invented the Marine Drive, for his significant contribution and support.

Ronald Trenter
Chairman
1 February 2002

Directors' Report

The directors present their annual report and audited financial statements for the period from incorporation 17 August 2000 to 30 September 2001.

Principal Activities

The principal activities of the Group are the development of its innovative marine propulsion system.

Business Review

A review of the business during and following the end of the year with comment on future developments is contained in the Chairman's statement on pages 2 and 3.

Results and Dividends

The results of the Group appear in detail on pages 12 to 25. The directors do not intend to recommend the payment of any dividends until they consider it prudent to do so, having regard to the need to retain sufficient funds to finance the development of the Group's activities.

Research and Development

The Group pursues an active research and development programme to rapidly progress its marine propulsion technology and to strengthen the intellectual property portfolio.

Donations

There were no charitable or political donations.

Directors

The directors who held office during the year were as follows;

Ronald C. Trenter (Non – executive Chairman, appointed 24 April 2001)
John G.M. Heathcote (Chief Executive, appointed 8 March 2001)
Martin P. Dunham (Finance Director, appointed 24 April 2001)
Alan Burns (Project Director, appointed 23 April 2001; resigned 7 September 2001)
John H. Clarke (Non – executive, appointed 24 April 2001)
Peter Taylor (Non – executive, appointed 24 April 2001)

The interests of the directors in the shares of the Group are set out in the Report of the Remuneration Committee on pages 8 to 10.

Substantial Shareholdings

As at 1 February 2002 shareholdings of 3% or more of the issued share capital notified to the Group were:

Ordinary shares	Number	Holding
John G.M. Heathcote	13,125,600	34.4%
Carnegie Corporation Limited	5,508,300	14.4%
John H. Clarke	3,281,400	8.6%
Nortrust Nominees	2,125,000	5.6%
Alan Burns	1,770,198	4.6%

Creditor Payment Policy

The Group seeks to maintain good relations with all its trading parties. In particular, it is the Group's policy to abide by the terms of payment agreed with each of its suppliers. The Group's average creditor payment period at 30 September 2001was 45 days and for the Company was nil.

Auditors

PricewaterhouseCoopers have indicated their willingness to be re-appointed as auditors of the Group and a resolution proposing their re-appointment will be put to the Annual General Meeting.

By Order of the Board

MP Dunham

Martin Dunham
Company Secretary
1 February 2002

Corporate Governance

The Company's shares were admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange on 23 May 2001. The Group is therefore subject to the AIM Admission Rules of the London Stock Exchange and is consequently not required to comply with the best practice corporate governance provisions contained within the Combined Code appended to the Listing Rules of the Financial Services Authority. However, the directors have considered the provisions of the Combined Code and set out below how the principles have been applied in the Group, and the extent of current compliance.

Principles of Good Governance and Code of Best Practice ("the Combined Code")

The directors have based their approach to the Combined Code on those principles of the Combined Code they believe are appropriate to the Group. The following summary includes details of the Combined Code provisions the Group has complied with and those areas where compliance is not deemed appropriate.

The Board
Pursuit Dynamics plc is led by a strong and experienced board. Three out of five of the directors are non-executive, all of whom are considered by the Board to be independent. The Chairman is one of the non-executive directors and there is a clear division of responsibility between the Chairman and the Chief Executive. Under the Company's Articles of Association, at least one-third of the Board is subject to retirement and re-election each year.

The Board retains full and effective control of the Group. This includes responsibility for determining the Group's strategy and for approving short and medium-term plans for achieving this strategy. All major and other strategic decisions are reserved to the Board which also has responsibility for corporate governance matters, approving major items of capital expenditure, senior executive remuneration and succession planning for top management.

As appropriate, the Board has delegated certain responsibilities to Board committees, which operate within clearly defined terms of reference. Standing committees of the Board include the Audit Committee and the Remuneration Committee with each committee existing entirely of non-executive directors. The Group currently does not have a Nominations Committee, as any new director would be considered by the whole Board.

Due to the recent formation of the Group, the Board met only three times during the period to 30 September 2001. The Board has scheduled ten meetings for the year ended 30 September 2002. Additional meetings for particular matters such as major acquisitions or disposals are held as necessary. At each regularly scheduled meeting, there is a full financial and business review and discussion, including operating performance to date against the annual budget and financial plan previously approved by the Board for that year.

Each Board member receives monthly operating results, including a comprehensive review and analysis. Prior to each Board meeting, directors are sent an agenda and a full set of Board papers for each agenda item to be discussed at the meeting. Additional information is provided as appropriate.

While the Board retains overall responsibility for the control of the Group, daily management is conducted by the Chief Executive Officer and Finance Director. They meet regularly to review operational decisions, strategic plans and proposals to submit to the Board for approval.

Directors' Remuneration
The Remuneration Committee, which consists exclusively of independent non-executive directors, is responsible for making recommendations on the Group framework of executive remuneration, and for determining specific remuneration packages for each executive director. The board as a whole determines the remuneration of non-executive directors.

A full report on remuneration policy and details of the remuneration of each director can be found in the Remuneration Committee report on page 8 to 10.

Relations with Shareholders
The Annual Report contains information on the activities of the Group for the preceding year and is sent to every shareholder on the share register. The interim report is also sent to every shareholder. The management endeavour to keep shareholders informed with regular news releases.

The Annual General Meeting (AGM) is the principal forum for dialogue with shareholders. The Chief Executive Officer makes a full business presentation, and there is also an open question and answer session in which shareholders may ask questions.

Internal Control

The directors are responsible for the Group's system of internal control and reviewing its effectiveness. The system of internal control implemented by the Board has been in place for the whole of the period and up to the date of approval of these reports and accounts. It is recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss and manage rather than eliminate the risks associated with the achievement of business objectives.

Controls within the Group are designed to provide the Board with reasonable assurance regarding the maintenance of proper accounting records, the reliability for financial information and the safeguarding of assets.

The Group has an appropriate organisational structure with clear lines of responsibility. Because of the size of the current trading operations and the detailed accounting and operational information available the directors do not believe the expense of an internal audit function is justified.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Group at the end of the financial year and profit and loss 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 being disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group 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.

By Order of the Board

M P Dunham

Martin Dunham
Company Secretary

Report of the Remuneration Committee

The remuneration committee is comprised of the following non-executive directors;

Ronald Trenter (Chairman of the Remuneration Committee)
John H. Clarke
Peter Taylor

The Remuneration Committee makes recommendations to the Board on the remuneration policy that applies to executive directors and senior employees.

Remuneration of non-executive directors

The non-executive directors receive a fee for their services, which are agreed by the whole board. They are each appointed by letter of agreement, with the appointment being terminated by 6 months' notice by either party.

Remuneration policy for executive directors

The Group's remuneration policy for executive directors is to:

a) Having regard to the directors' experience and the nature and complexity of their work, pay a competitive salary that attracts and retains management of the highest quality.
b) Link individual remuneration packages to the Group's long term performance through the award of share options and incentive schemes.
c) Provide employment related benefits including the provision of a company car or cash alternative, life insurance and medical insurance.

Salaries and benefits

The annual salaries for executive directors are determined by the Remuneration Committee having regard to personal performance. Executive directors have contracts of service that can be terminated by either party with a notice period not exceeding 12 months.

	Salary £	Benefits £	2001 Total £
Ronald C. Trenter	13,000	-	13,000
John G.M. Heathcote	31,250	2,708	33,958
Martin P. Dunham	50,667	2,419	53,086
Alan Burns	62,542	-	62,542
John H. Clarke	6,000	-	6,000
Peter Taylor	6,000	-	6,000
	169,459	5,127	174,586

On 7 September 2001, Mr Alan Burns resigned as a director of the Company. He was paid £37,500 in lieu of the notice period due under his service contract, which is included in the £62,542 above.

Directors' Interests in shares

The beneficial interests of directors at the end of the year in the ordinary share capital of the Company were as follows:

	30 September 2001
Ronald C. Trenter	30,000
John G.M. Heathcote	13,125,600
Martin P. Dunham	-
John H. Clarke	3,281,400
Peter Taylor	-

Alan Burns, who resigned as a director on 7 September 2001, held a beneficial interest in 1,770,198 ordinary shares of the Company at the end of the year.
There have been no changes in the above interests between the balance sheet date and the date of approval of the financial statements.

Directors' Interests in share options

Details of options over the Company's ordinary shares held by directors under an unapproved share option scheme (the "Share Option Plan") are as follows:

	Date of Grant	Number of Options	Exercise Price	Exercise Period
Ronald C. Trenter	14 May 2001	708,079	50p	Note i
John G.M. Heathcote	14 May 2001	354,039	50p	Note i
Martin P. Dunham	14 May 2001	885,098	50p	Note i
John H. Clarke	14 May 2001	177,019	50p	Note i
Peter Taylor	14 May 2001	354,039	50p	Note i

Note i : Subject to the rules of the Share Option Plan and the requirements noted below, each of these options may be exercised as follows:

- one-third of the shares under option following the first anniversary of the date of grant;
- a further one-third of the shares under option following the second anniversary of the date of grant;
- the final one-third of the shares under option following the third anniversary of the date of grant;

Provided that the option holder has remained a director or employee of the Company or one of its subsidiaries throughout the one-year period prior to the applicable anniversary of the date of grant.

Options are not exercisable later than midnight on the day before the tenth anniversary of the date of grant.

Furthermore, if the mid-market closing price of an ordinary share exceeds £1.00 on each dealing day in any period of 30 consecutive days, each option shall thereafter be exercisable in full.

No options have been granted to directors between the balance sheet date and the date of approval of the financial statements.

No options were exercised during the period and 354,039 options issued to Alan Burns on 14 May 2001 lapsed on the day he resigned as a director, 7 September 2001. Options were granted at no cost to the directors. At 30 September 2001 the market price of the Company's shares was 37.5p and the range during the period was 35.5p to 55.5p.

On behalf of the Board

Ronald Trenter
Chairman of the Remuneration Committee
1 February 2002

Independent auditors' report to the members of Pursuit Dynamics plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 7. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2001 and of the loss and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cambridge

1 February 2002

Consolidated Profit and Loss Account

For the period from incorporation, 17 August 2000 to 30 September 2001

	Note	2001 £
Administrative expenses		(600,738)
Research and development costs		(897,438)
Operating loss		(1,498,176)
Interest receivable	6	55,067
Interest payable and similar charges		(287)
Loss on ordinary activities before taxation	2	(1,443,396)
Tax on loss on ordinary activities		-
Loss for the period		(1,443,396)
Loss per 1p share		
- Basic and diluted	7	6.3p

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

There are no recognised gains and losses other than those reported above. No separate statement of total recognised gains and losses has therefore been presented.

All activity related to continuing operations.

Consolidated and Company Balance Sheet

As at 30 September 2001

	Note	Group 2001 £	Company 2001 £
Fixed Assets			
Intangible fixed assets	10	5,218,619	-
Tangible fixed assets	12	83,718	-
Investments	13	-	270,040
		5,302,337	270,040
Current Assets			
Debtors	14	90,504	4,667,999
Short term investments	15	2,453,060	-
Cash at bank and in hand		176,166	-
		2,719,730	4,667,999
Creditors: amounts falling due within one year	16	(286,653)	-
Net Current Assets		2,433,077	4,667,999
Net Assets		7,735,414	4,938,039
Capital and Reserves			
Called up share capital	18	381,581	381,581
Share premium account	20	8,797,229	4,736,044
Profit and loss account	20	(1,443,396)	(179,586)
Equity shareholders' funds		7,735,414	4,938,039

The financial statements, comprising the profit and loss account, balance sheet, cashflow statement and related notes, were approved by the Board on 1 February 2002 and were signed on its behalf by:

M P Dunham

Martin Dunham
Director and Company Secretary

Consolidated Cash Flow Statement

For the period from incorporation, 17 August 2000 to 30 September 2001

	Note	2001 £
Net cash outflow from operating activities	23	(914,770)
Returns on investment and servicing of finance		
Interest received		55,067
Interest paid		(287)
Net cash inflow from returns on investments and servicing of finance		54,780
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets		(87,563)
Payments to acquire intangible fixed assets	11	(400,000)
Payments to acquire short term investments		(76,213)
Net cash outflow for capital expenditure and financial investment		(563,776)
Net cash outflow before management of liquid resources and financing		(1,423,766)
Management of liquid resources		
Increase in short-term deposits with banks	25	(2,408,285)
Net cash outflow from management of liquid resources		(2,408,285)
Financing		
Proceeds of initial ordinary share issue	18	400,000
Proceeds of ordinary share issue upon flotation	18	4,200,000
Issue costs of shares issued upon flotation		(591,783)
Net cash inflow from financing		4,008,217
Increase in cash in the period	24	176,166

Notes to the financial statements for the period from incorporation, 17 August 2000 to 30 September 2001

1. Principal accounting policies

Basis of accounting

The financial information contained in this report has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important policies, which have been applied consistently, is set out below.

Consolidation

The consolidated profit and loss account and balance sheet include the financial information of Pursuit Dynamics plc and its subsidiaries.

The financial statements of Pursuit Marine Drive Limited, which was acquired on 14 May 2001, have been consolidated using the principle of merger accounting. The results have been presented as though the Group had been established throughout the current period. Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of the foreign subsidiaries are translated at the average rate for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from the translation of the results of those companies at average rate, are taken to reserves and reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise. Intra-group transactions, profits and balances are eliminated in full on consolidation. Investments in subsidiaries are carried at the lower of cost or valuation in the Company's individual financial statements.

Intangible fixed assets

Purchased intangible assets comprise intellectual property and are shown at cost less accumulated amortisation. Intangible assets are amortised so as to write off the purchase cost over the estimated useful economic lives of the assets, currently assessed to be 10 years. Provision is made against the carrying value of intangible fixed assets where an impairment in value is deemed to have occurred.

Tangible fixed assets

Plant and machinery and fixtures and fittings are shown at cost less accumulated depreciation. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of the tangible fixed assets, less their estimated residual values on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Plant and machinery	25 – 33 1/3
Fixtures and fittings	15

Short term investments

Deposits which are not repayable on demand are treated as short term investments.

Research and development

All research and development costs are charged to the profit and loss account as incurred.

Deferred taxation

Deferred taxation is provided using the liability method in respect of all significant timing differences to the extent that it is probable that a liability will crystallise. FRS19 has not yet been implemented by the Company.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Foreign currencies

Transactions denominated in foreign currencies are recorded at exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of transaction is included as an exchange gain or loss in the profit and loss account.

Share options

In accordance with the provisions of Urgent Issues Task Force Abstract 17 "(Employee Share Schemes)", the Company makes charges to the profit and loss account when options are granted, the charge being the estimated market value of the shares at the date of grant less the exercise price of the options. The charge is then credited back to reserves. No charge has been made in the year ended 30 September 2001 on the grounds that the exercise price of the share options in issue is not considered to be materially different from the fair value of the ordinary shares of the Company at the date of granting options.

2. Loss on ordinary activities before taxation

	2001
	£
The loss on ordinary activities is stated after charging:	
Depreciation of tangible fixed assets	3,845
Amortisation of intangible fixed assets	351,974
Research and development costs	897,438
Operating leases – land & buildings	7,855
Auditors' remuneration - audit fees (Company: £5,000)	20,000
- non-audit services	68,875

A further £27,059 for non-audit services provided in respect of the Company's flotation has been charged to the share premium account

3. Directors' emoluments

The aggregate emoluments of the directors of the Company since incorporation are set out below:

	2001
	£
Emoluments in respect of qualifying services	112,044
Sums paid to third parties for directors' services	62,542
	174,586

Detailed disclosures of the directors' remuneration and directors' interests in shares and options over the Company's shares are shown in the Report of the Remuneration Committee.

No director has retirement benefits accruing to him as a result of his services to the Group.

4. Employee information

The average monthly number of persons (including executive directors) employed by the group during the period was 4, 3 of whom were employed in an administrative capacity and the other in research and development.

5. Employee costs

The staff costs for the employees shown in note 4 (including executive directors) were

	2001
	£
Staff costs	
Wages and salaries	167,577
Social security costs	11,514
	179,091

6. Interest receivable

	2001
	£
Interest receivable on short term investments	55,067

7. Tax on loss on ordinary activities

There is no corporation tax charge for the period. The Group has tax losses in excess of £2,400,000, which will be carried forward, subject to agreement with the Inland Revenue. There is no potential or actual deferred tax liability. No deferred taxation has been provided in the financial statements, as it is probable that no liability will arise in the foreseeable future due to the availability of tax losses. The Group has an unrecognised deferred tax asset totaling £400,000 made up of losses and advanced capital allowances of £730,000 (asset) and £330,000 (liability), respectively.

8. Loss per share

Basic and diluted loss per share are calculated by dividing the loss after taxation of £1,443,396 by 22,947,921 shares, being the weighted average number of ordinary shares in issue during the period.

9. Results for the financial period

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the parent company is not presented. The parent company's result for the period was a loss of £179,586.

10. Intangible fixed assets

	Group 2001 £
Cost	
At 17 August 2000	-
Additions	5,570,593
As at 30 September 2001	5,570,593
Amortisation	
At 17 August 2000	-
Charge for the period	351,974
As at 30 September 2001	351,974
Net book value	
At 30 September 2001	5,218,619
At 17 August 2000	-

Intangible fixed assets comprise certain intellectual property rights (see note 11), the fair value of the consideration was valued at £5,570,593. The directors currently assess the useful economic life of the intellectual property rights to be 10 years.

The Company has no intangible fixed assets.

11. Acquisition of intellectual property

a. On 30 September 2000, the Group entered into a contract with New Millennium Engineering Pty Limited ("NME"), a wholly owned subsidiary of Carnegie Corporation Limited ("Carnegie"), a company incorporated in Australia, giving it an option to purchase NME's 50 per cent holding of certain intellectual property in respect of the marine propulsion technology.
On 14 May 2001 the Group exercised the first stage of its option and purchased 25 per cent of the intellectual property rights from NME in exchange for £150,000 and 2,754,150 Ordinary shares.
On 13 July 2001 the Group completed the acquisition of the remaining 25 per cent of the intellectual property rights from NME in exchange for 2,754,150 Ordinary shares

b. On 3 October 2000, the Group entered into a contract with Alan Burns, the inventor, giving an option to purchase a 50 per cent holding of certain intellectual property in respect of the marine propulsion technology.
On 23 November 2000, the Group exercised this option and on 14 May 2001 paid Burns and his nominees £250,000 and issued 5,108,300 Ordinary shares.

12. Tangible fixed assets

	Plant and Machinery £	Fixtures and Fittings £	Total £
Cost			
17 August 2000	-	-	-
Additions	48,441	39,122	87,563
At 30 September 2001	48,441	39,122	87,563
Depreciation			
17 August 2000	-	-	-
Charge for the period	3,463	382	3,845
At 30 September 2001	3,463	382	3,845
Net book value			
At 30 September 2001	44,978	38,740	83,718
At 17 August 2000	-	-	-

The Company has no tangible fixed assets.

13. Investments

	Group 2001 £	Company 2001 £
Cost and net book value		
17 August 2000	-	-
Additions	-	270,040
At 30 September 2001	-	270,040

The Company's investments comprise interests in 2 group undertakings, details of which are shown below;

Name of Undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held by group
Pursuit Marine Drive Limited	England and Wales	Ordinary 1p shares	100%
Pursuit Dynamics (Pty) Limited	Australia	Ordinary A$1 shares	100%

The principal activity of Pursuit Marine Drive Limited is the research, development and commercial exploitation of the marine propulsion system. The results of Pursuit Marine Drive Limited are included within these consolidated financial statements.

Pursuit Dynamics (Pty) Limited remained a dormant company throughout the period to 30 September 2001.

14. Debtors

	Group 2001 £	Company 2001 £
Amounts falling due within one year:		
Amounts owed by group companies	-	4,667,999
Other debtors	35,058	-
Prepayments	55,446	-
	90,504	4,667,999

15. Short term investments

	Group
	2001
	£
Short term deposits with banks	2,408,285
Marketable securities	44,775
	2,453,060

Under the terms of the contract with New Millennium Engineering (Pty) Ltd (see note 11 a) and in return for the Group receiving the right of first refusal over any related technology developed by Carnegie Corporation (Pty) Ltd, the Group was to acquire Carnegie shares to the value of £75,000. As at 30 September 2001, the market value of this investment was £44,775.

The Company has no short term investments.

16. Creditors: amounts falling due within one year

	Group
	2001
	£
Trade creditors	187,052
Taxation and social security	9,248
Accruals	90,353
	286,653

The Company has no creditors.

17. Financial instruments

The financial risks faced by the Group include interest rate risk, currency risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks. The Group's main objectives in using financial instruments are the maximisation of returns from funds held on deposit and, when appropriate, the generation of additional cash resources for the Group's operations through the issue of shares. The Group's policy is to raise cash in advance of when it is required and when market conditions are appropriate.

Due to the nature of the Group's activities, the directors do not consider it necessary to use derivative financial instruments to hedge the Group's exposure to fluctuations in interest and foreign exchange rates, as these exposures are not considered significant.

Short term debtors and creditors have been excluded from the following disclosures.

The Group has no financial liabilities at 30 September 2001. Financial assets, which are all in Sterling, consist of short term deposits which earn fixed rate interest of between 3.905% and 4.76% and cash earning floating rate interest of 1.35%. The fair values of the Group's financial assets and liabilities are not materially different from their book value because of their short term nature.

The Group has no committed borrowing facilities.

18. Called up share capital

	2001
	£
Authorised	
100,000,000 Ordinary shares of 1p each	1,000,000
Allotted, called up and fully paid	
38,158,100 Ordinary shares of 1p each	381,581

The Company was incorporated as Pursuit Dynamics plc on 8 March 2001 with authorised share capital of £1,000,000 divided into 100,000,000 Ordinary shares of 1p each. Two Ordinary shares of 1p each were allotted nil paid on incorporation.

On 14 May 2001, the shareholders of Pursuit Marine Drive Limited transferred their entire holding of 27,003,948 shares to the Company in a share for share exchange, resulting in Pursuit Marine Drive Limited becoming a wholly owned subsidiary of the Company.

On 23 May 2001, the Group issued 8,400,000 Ordinary shares of 1p each for cash proceeds of £4,200,000.

On 13 July 2001, the Group issued 2,754,150 Ordinary shares of 1p each to acquire the remaining 25% of the intellectual property rights to the marine propulsion technology (see note 11a).

19. Share options

The Group has issued share options under an unapproved share option scheme (the "Share Option Plan") adopted by the Group on 22 March 2001.

Movements in share options over 1p Ordinary shares in the Company in the year were as follows:

	Number of Options
As at 17 August 2000	-
Options granted in the period	2,846,313
Options lapsed in the period	(354,039)
As at 30 September 2001	2,492,274

No options have been exercised or lapsed since the year end. On 3 December 2001 a further 525,059 share options were issued to an employee of the Group.

Total options existing over 1p Ordinary shares in the Company are summarised below:

Date of Grant	Number of Options	Exercise Price	Exercise Period
14 May 2001	2,492,274	50p	see below

Subject to the rules of the Share Option Plan and the criteria below, each of these options may be exercised as follows:

- one-third of the shares under option following the first anniversary of the date of grant;
- a further one-third of the shares under option following the second anniversary of the date of grant;
- the final one-third of the shares under option following the third anniversary of the date of grant;

Provided that the option holder has remained a director or employee of the Company or one of its subsidiaries throughout the one-year period prior to the applicable anniversary of the date of grant.

Options are exercisable no later than midnight on the day before the tenth anniversary of the date of grant.

Furthermore, if the mid-market closing price of an Ordinary Share exceeds £1.00 on each dealing day in any period of 30 consecutive days, each option shall thereafter be exercisable in full.

20. Share premium account and reserves

Group	Share Premium Account	Profit and Loss account
	£	£
As at 17 August 2000	-	-
Premium on ordinary shares issued	9,389,012	-
Issue costs of shares issued upon flotation	(591,783)	-
Loss for the financial period	-	(1,443,396)
As at 30 September 2001	8,797,229	(1,443,396)

Company	Share Premium Account	Profit and Loss account
	£	£
On incorporation	-	-
Premium on ordinary shares issued	5,328,827	-
Issue costs of shares issued upon flotation	(591,783)	-
Loss for the financial period	-	(179,586)
As at 30 September 2001	4,736,044	(179,586)

21. Reconciliation of movements in shareholders' funds

	Group 2001 £
Proceeds on initial ordinary share issue	400,000
Proceeds of ordinary shares issue upon flotation	4,200,000
Ordinary shares issued to acquire intellectual property	5,170,593
Issue costs of shares issued on flotation	(591,783)
Loss for the financial period	(1,443,396)
	7,735,414

On 23 May 2001, the Company's shares were admitted, by way of a Placing, to the Alternative Investment Market of the London Stock Exchange, raising £4,200,000 before costs of £591,783.

22. Operating lease commitments

At 30 September 2001, the Group had annual commitments under non-cancellable operating leases expiring with 2 to 5 years of £43,500 relating to property. The Company had no financial commitments at 30 September 2001.

23. Reconciliation of operating loss to net cash outflow from operating activities

	2001 £
Operating loss	(1,498,176)
Amortisation	351,974
Depreciation	3,845
Amounts written off marketable securities	31,438
Increase in debtors	(90,504)
Increase in creditors	286,653
Net cash outflow from operating activities	(914,770)

24. Reconciliation of net cash flow to movement on net funds

	2001 £
Increase in cash in period	176,166
Cash outflow from purchase of short term deposits	2,408,285
Change in net funds from cash flows	2,584,451
Net funds at start of period	-
Net funds at end of period (see note 25)	2,584,451

25. Analysis of movements in net funds

	At 17 August 2000	Cash flows	At 30 September 2001
	£	£	£
Cash at bank and in hand	-	176,166	176,166
Short term deposits	-	2,408,285	2,408,285
Net funds at 30 September 2001	0	2,584,451	2,584,451

26. Related party disclosures

Certain items of office and computer equipment for use in the business were purchased from Consolidated African Mining Corporation Limited ("CAMC"), a company of which JGM Heathcote is a controlling director. An amount of £7,473 was paid for this equipment, which is not materially different from its net book value in the books of CAMC. In addition, CAMC was reimbursed £4,943 for costs incurred on behalf of the Group. There were no outstanding balances at the end of the period.

The Group contracted Marine Rubber (Pty) Limited ("Marine Rubber"), a company controlled by Alan Burns, to provide certain research and development services. During the period to 30 September 2001 Marine Rubber had received £134,697 for these services, at 30 September 2001 there were no amounts outstanding to Marine Rubber.