Company number: 4175777

Report of the Directors and

Consolidated Financial Statements for the year ended 30 September 2002

for

Pursuit Dynamics plc

Contents of the Financial Statements
for the year ended 30 September 2002

Chairman's statement

I am pleased to present the second Annual Report of Pursuit Dynamics plc for the year ended 30 September 2002.

This has been a very exciting year for the Group with significant advances made in the development of the Group's principle technology and its applications.

Results

During the year the group recorded a loss after tax of £1,593,189 (2001: £1,443,396), which included interest receivable of £69,323 (2001: £55,067) and a research and development tax credit receivable of £158,362 (2001: £nil). The reported loss continues to be in line with budgeted expenditure for the development of the Group's technology.

Technical review

Marine Drive
Work on the development of the marine propulsion system remains on track. The group achieved several major development milestones during the year. In September this year we received verification from the department of Aerospace, Automotive and Mechanical Engineering, University of Hertfordshire, that out latest prototype is capable of matching 2-stroke outboard engine efficiency levels.

The Group is in discussions with an organisation regarding the design and manufacture of a suitable steam generator for the recreational and light commercial marine markets. This represents the last significant challenge to bringing the PDX marine technology to its initial market.

The development of the technology to date has exceeded the original anticipated advantages over existing marine propulsion systems in both economic and environmental terms.

Pumping technology
As a result of the development of the marine drive technology, the Group has developed a revolutionary steam powered pumping system, and has now successfully completed initial testing. The pump contains no moving parts, is virtually impossible to block and can handle solids up to the same diameter as the inlet pipe. In addition, the pump has mixing and multiple entrainment capabilities.

The steam pump technology offers many advantages over existing pump alternatives.

Numerous potential commercial applications for the pumping system have been identified including sewage treatment, food processing, pharmaceutical manufacturing, mining, environmental clean-up operations and other fluid transfer or mixing applications.

Board changes

Gary Pyle joined the Board during March 2002 as Finance Director to succeed Martin Dunham who resigned due to ill health.

Outlook

The Directors of Pursuit believe that the advances made by the Group in the development of the PDX Marine Drive system and the PDX Pump over the past 12 months have greatly enhanced the prospects for the success of the technology. The completion of a mobile demonstration pumping unit in January 2003 will further illustrate the commercial capabilities of the pumping technology. The Board is now in active discussions with both joint venture and licensing partners to develop the commercial markets for the technology during 2003 and is looking forward to the next 12 months with optimism.

Ronald Trenter
Chaiman
10 December 2002

Directors

Ron Trenter (58, Non-Executive Chairman)

Ron Trenter spent 22 years with Texas Homecare, where he was appointed Managing Director in 1980 and Chairman and CEO in 1991. He has held senior positions with a number of companies in the UK, USA and Europe and as a Director of Home Charm plc and Ladbroke Retail Parks Ltd (a division of Ladbroke Group plc), and he was Executive Chairman of Upton and Southern Holdings plc from 1995 to 1999. Mr Trenter is currently Non Executive Chairman of Oasis Healthcare plc and Consolidated Veterinary services (UK) Ltd.

John Heathcote (48, Chief Executive Officer)

John Heathcote is a co-founder of the company that is now Pursuit Dynamics plc. He has many years experience working in the natural resource sector throughout Africa, Central Asia and North and Central America. Prior to this he held a number of senior positions during his career in the financial sectors in London and Hong Kong.

Gary Pyle (36, Finance Director)

Gary Pyle, a chartered accountant, qualified in 1989. He previously acted for a number of small and medium sized companies whilst a partner in a firm of Chartered Accountants, specialising in providing an outsourced finance solution to the SME business sector.

Henry Clark (42, Non-Executive Director)

Henry Clark is a co-founder of the company that is now Pursuit Dynamics plc. He has almost 20 years experience working in London's financial markets. In 1994 he started his own consultancy business that specialises in advising, investing in, and facilitating investment in, businesses from early stage financing to flotation. He is a Director and majority shareholder in Trafalgar 1805 Ltd.

Peter Taylor (55, Non-Executive Director)

Peter Taylor is a Chartered Engineer and worked for PA Management Consultants from 1973 to 1980. In 1980 he co-founded TM Services Ltd, a management and technical service company serving the oil, gas and chemical industries. He has been a founder shareholder and director of several resource companies including Dana Petroleum plc, which was listed in the Official List in 1996 and of which company he was a Non-Executive director until August 2001.

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 September 2002.

Principal activities

The principal activities of the Group are the development of its innovative steam pump technology with applications in marine propulsion and industrial pumping.

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 page 1.

Going concern

At 30 September 2002, the Group had cash and liquid resources of £1,235,024. As the group has considerable flexibility in its monthly cash requirements, the directors have a reasonable expectation that the Group has adequate cash resources to fund the requirements of the business for at least the next 12 months, and have therefore adopted the going concern basis in preparing the financial statements for the year ended 30 September 2002. Further details of this prospects for the Group's technology are included in the Chairman's statement on page 1.

Results and dividends

The results of the Group appear in detail on pages 10 to 11. 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 drive and pump technologies 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)
John G M Heathcote	(Chief Executive Officer)
Martin P Dunham	(Finance Director, resigned 20 March 2002)
Gary S Pyle	(Finance Director, appointed 22 March 2002)
John H Clarke	(Non-Executive Director)
Peter Taylor	(Non-Executive Director)

The interests of the directors in the shares of the Group are set out in the Report of the Remuneration Committee on pages 7 and 8.

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 2002 was eleven (2001:45) days and for the Company was nil (2001:nil).

Directors' report

Substantial Shareholdings

As at 10 December 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	4,008,300	10.5%
John H Clarke	3,281,400	8.6%
Nortrust Nominees	2,125,000	5.6%
Rimosa Limited	1,964,830	5.1%

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

Gary Pyle
Company Secretary
10 December 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.

The Board met ten times during the year to 30 September 2002. The Board has scheduled ten meetings for the year ended 30 September 2003. 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 7 and 8..

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.

Identification and evaluation of risks is an integral part of the Board's planning process, although the main risk continues to be the availability of funding to complete the Group's development programme. The system of internal control implemented by the Board has been in place for the whole of the year 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 Company and the Group at the end of the financial year and profit or loss of the Group for that year. 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 Company and the Group and to prevent and detect fraud and other irregularities.

By Order of the Board

Gary Pyle
Company Secretary

Report of the remuneration committee

The Remuneration Committee is comprised of the following non-executive directors;

Ronald C. 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 fees for their services, which are agreed by the whole Board. They are each appointed by letter of agreement, with the appointment being terminable by six 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	Compensation *for loss of office*	2002 Total	2001 Total
	£	£	£	£	£
Ronald C Trenter	34,500	-	-	34,500	13,000
John GM Heathcote	79,800	2,541	-	82,341	33,958
Martin P Dunham	35,202	576	21,000	56,778	53,086
John H Clarke	18,000	-	-	18,000	6,000
Gary S Pyle	3,000	-	-	3,000	
Peter Taylor	18,000	-	-	18,000	6,000
Alan Burns	-	-	-	-	62,542
	188,502	3,117	21,000	212,619	174,586

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:

Number of shares	30 September 2002	30 September 2001
Ronald C Trenter	180,000	30,000
John G M Heathcote	13,125,600	13,125,600
John H Clarke	3,281,400	3,281,400
Gary S Pyle	50,000	-
Peter Taylor	1,177,641	-

There have been no changes in the above interests between the balance sheet date and the date of approval of the financial statements.

Report of the remuneration committee

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:

	Options at 1 October 2001	Date of Grant	Options granted	Exercise Price	Options lapsed	Options at 30 September 2002	Exercise Period
Ronald C Trenter	708,079	14 May 2001	-	50p	-	708,079	Note I
Ronald C Trenter	-	10 June 2002	245,873	24.5p	-	245,873	Note I
John G M Heathcote	354,039	14 May 2001	-	50p	-	354,039	Note I
Martin P Dunham	885,098	14 May 2001	-	50p	635,098	250,000	Note I
John H Clarke	177,019	14 May 2001	-	50p	-	177,019	Note I
Peter Taylor	354,039	14 May 2001	-	50p	-	345,039	Note I
Peter Taylor	-	10 June 2002	127,810	24.5p	-	127,810	Note I
Gary S Pyle	-	10 June 2002	50,000	24.5p	-	50,000	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 year and options issued to Martin Dunham on 14 May 2001 lapsed on the day he resigned as a director, 20 March 2002. Options were granted at no cost to the directors. At 30 September 2002 the market price of the Company's shares was 22.5p and the range during the period was 20p to 40.5p.

On behalf of the Board

Ronald Trenter
Chairman of the Remuneration Committee
10 December 2002

Independent auditors' report

To the members of Pursuit Dynamics plc

We have audited the financial statements which comprise the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated 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 6.

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. This opinion has been prepared for and only for the Company's members in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by prior consent in writing.

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 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Cambridge

10 December 2002

Consolidated profit and loss account

For the year ended 30 September 2002

	Note	Year ended 30 September 2002 £	Period ended 30 September 2001 * £
Administrative expenses		(654,829)	(600,738)
Research and development costs		(1,165,933)	(897,438)
Operating loss		(1,820,762)	(1,498,176)
Interest receivable	6	69,323	55,067
Interest payable and similar charges		(112)	(287)
Loss on ordinary activities before taxation	2	(1,751,551)	(1,443,396)
Tax credit on loss on ordinary activities		158,362	-
Loss on ordinary activities after taxation		(1,593,189)	(1,443,396)
Loss per 1p share			
- Basic and diluted	8	4.17p	6.30p

* Comparative figures are for the period from incorporation (17 August 2000) to 30 September 2001.

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 2002

	Note	Group 2002	Company 2002	Group 2001	Company 2001
Fixed assets		£	£	£	£
Intangible fixed assets	10	4,661,560	-	5,218,619	-
Tangible fixed assets	12	151,085	-	83,718	-
Investments	13	-	270,040	-	270,040
		4,812,645	270,040	5,302,337	270,040
Current assets					
Debtors: amounts falling due after more than on year	14	-	4,610,499		
Debtors: amounts falling due within one year	14	219,558	-	90,504	4,667,999
Short term investments	15	1,180,612	-	2,453,060	-
Cash at bank and in hand		54,412	-	176,166	-
		1,454,582	4,610,499	2,719,730	4,667,999
Creditors: amounts falling due within one year	16	(125,002)	-	(286,653)	-
Net current assets		1,329,580	4,610,499	2,433,077	4,667,999
Net assets		6,142,225	4,880,539	7,735,414	4,938,039
Capital and reserves					
Called up share capital	18	381,581	381,581	381,581	381,581
Share premium account	20	8,797,229	4,736,044	8,797,229	4,736,044
Profit and loss account	20	(3,036,585)	(237,086)	(1,443,396)	(179,586)
Equity shareholders' funds	21	6,142,225	4,880,539	7,735,414	4,938,039

The financial statements were approved by the Board on 10 December 2002 and were signed on its behalf by:

Gary Pyle
Director and Company Secretary

Consolidated cash flow statement

For the year ended 30 September 2002

	Note	Year ended 30 September 2002 £	Period ended 30 September 2001 £
Net cash outflow from operating activities	23	(1,386,700)	(914,770)
Returns on investment and servicing of finance			
Interest received		69,323	55,067
Interest paid		(112)	(287)
Net cash inflow from returns on investments and servicing of finance		69,211	54,780
Taxation			
UK Corporation tax – research and development tax credit received		42,362	-
Net cash inflow from taxation		42,362	
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(109,735)	(87,563)
Payments to acquire intangible fixed assets	11	-	(400,000)
Receipts from sale of short term investments		10,787	-
Payments to acquire short term investments		-	(76,213)
Net cash outflow for capital expenditure and financial investment		(98,948)	(563,776)
Net cash outflow before management of liquid resources and financing		(1,374,075)	(1,423,766)
Management of liquid resources			
Decrease/(Increase) in short-term deposits with banks	25	1,252,321	(2,408,285)
Net cash inflow/(outflow) from management of liquid resources		1,252,321	(2,408,285)
Financing			
Proceeds of initial ordinary share issue		-	400,000
Proceeds of ordinary share issue upon flotation		-	4,200,000
Issue costs of shares issued upon flotation		-	(591,783)
Net cash inflow from financing		-	4,008,217
(Decrease)/increase in cash in the period	24	(121,754)	176,166

*Comparative figures are for the period from incorporation (17 August 2000) to 30 September 2001.

Notes to the financial statements
For the year ended 30 September 2002

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, other than as explained is set out below.

Adoption of new accounting standards

The accounting policies have been reviewed by the Board of directors in accordance with Financial Reporting Standard ('FRS') 18 ('Accounting Policies'). FRS 19 ('Deferred tax') has been adopted in the year but its implementation has had no effect on the amounts disclosed in the profit and loss account and balance sheets. The presentational requirements of FRS19 for the current and prior year are set out in note 7.

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 prior period. Intra-group transactions, profits and balances are eliminated in full on consolidation.

Going Concern

At 30 September 2002,the Group had cash and liquid resources of £1,235,024. As the Group has considerable flexibility in its monthly cash requirements, the directors have a reasonable expectation that the Group has adequate cash resources to fund the requirements of the business for at least the next 12 months, and have therefore adopted the going concern basis in preparing the financial statements for the year ended 30 September 2002.

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

Fixed asset investments

Investments in subsidiaries are carried at the lower of cost or valuation in the Company's individual financial statements.

Short term investments

Deposits with financial institutions which are not repayable on demand without penalty are classified as short term investments.

Research and development

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

Notes to the financial statements (continued)

For the year ended 30 September 2002

Deferred taxation

Provision is made for deferred taxation in accordance with FRS19 ('Deferred Tax') on all material timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

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 2002 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

		Year ended 30 September 2002 £	Period ended 30 September 2001 £
The loss on ordinary activities is stated after charging:			
Depreciation of tangible fixed assets		42,369	3,845
Amortisation of intangible fixed assets		557,059	351,974
Research and development costs		608,874	545,464
Operating leases	- land & buildings	46,579	7,855
Auditors' remuneration	- audit fees (Company: 5,000)	17,500	20,000
	- non-audit services	13,830	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 in the period ended 30 September 2001.

3. Directors' emoluments

The aggregate emoluments of the directors of the Company for the year ended 30 September 2002 are set out below:

	Year ended 30 September 2002 £	Period ended 30 September 2001 £
Emoluments in respect of qualifying services	191,169	112,044
Sums paid to third parties for directors' services	-	62,542
Compensation for loss of office	21,000	-
	212,169	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 nine (2001:four), four (2001:three) of whom were employed in an administrative capacity and five (2001:one) in research and development.

5. Employee costs

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

	Year ended 30 September 2002 £	Period ended 30 September 2001 £
Staff costs		
Wages and salaries	445,380	167,577
Social security costs	36,417	11,514
	481,797	179,091

6. Interest receivable

	Year ended 30 September 2002 £	Period ended 30 September 2001 £
Interest receivable on short term investments	69,323	55,067

7. Tax on loss on ordinary activities

	Year ended 30 September 2002 £	Period ended 30 September 2001 £
United Kingdom research and development tax credit at 16% (2001:16%)		
Current year	116,000	-
Under provision in respect of prior years	42,362	-
	158,362	-

There is no corporation tax charge for the period. The Group has tax losses in excess of £3,900,000 which will be carried forward, subject to agreement with the Inland Revenue. The Group has an unrecognised deferred tax asset totalling £760,000 made up of losses and advanced capital allowances of £1,231,000 (asset) and £471,000 (liability), respectively. (2001: £400,000). This potential asset has not been recognised due to uncertainty as to when it will be recoverable.

The value of the R&D tax credit for the year does not equal the value that would be produced by applying the UK standard rate of 16% for R&D tax credits to the loss before tax for the year. The reasons for the difference are set out in the table below:

	Year ended 30 September 2002 £	Period ended 30 September 2001 £
Loss on ordinary activities before tax	1,751,551	1,443,396
Loss on ordinary activities multiplied by the United Kingdom standard rate for R&D tax credits of 16% (2001:16%)	280,248	230,943
Effects of:		
- difference between depreciation and capital allowances	93,878	176,537
- expenses not deductible for tax purposes	27,984	(16,336)
- carry forward losses	(286,110)	(391,144)
- research and development tax credit – prior year	42,362	-
	158,362	-

8. Loss per share

Basic and diluted loss per share are calculated by dividing the loss after taxation of £1,593,189 (2001:£1,443,396) by 38,158,100 (2001 : 22,911,048) shares, being the weighted average number of Ordinary shares in issue during the year.

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 £57,500 (2001: loss £179,586).

10. Intangible fixed assets

	Group 2002 £
Cost	
At 1 October 2001	5,570,593
Additions	-
As at 30 September 2002	5,570,593
Amortisation	
At 1 October 2001	351,974
Charge for the year	557,059
As at 30 September 2002	909,033
Net book value	
At 30 September 2002	4,661,560
At 30 September 2001	5,218,619

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

   As a result of these transactions the Group now owns 100% of the intellectual property connected with the technology under development.

12. Tangible fixed assets

	Plant and Machinery	Fixtures and Fittings	Total
	£	£	£
Cost			
1 October 2001	48,441	39,122	87,563
Additions	96,763	12,973	109,736
At 30 September 2002	145,204	52,095	197,299
Depreciation			
1 October 2001	3,463	382	3,845
Charge for the year	34,573	7,796	42,369
At 30 September 2002	38,036	8,178	46,214
Net book value			
At 30 September 2002	107,168	43,917	151,085
At 30 September 2001	44,978	38,740	83,718

The Company has no tangible fixed assets.

13. Investments

	Group 2002	Company 2002	Group 2001	Company 2001
	£	£	£	£
Cost and net book value				
1 October	-	270,040	-	-
Additions		-	-	270,040
At 30 September 2002	-	270,040	-	270,040

The Company's investments comprise interests in two 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 steam propulsion and pumping technology. 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 2002.

14. Debtors

	Group 2002	Company 2002	Group 2001	Company 2001
	£	£	£	£
Amounts falling due in more than one year:				
Amounts owed by group companies	-	4,610,499	-	
	-	4,610,499	-	-
Amounts falling due within one year:				
Amounts owed by group companies	-	-	-	4,667,999
Other debtors	131,666	-	35,058	-
Prepayments	87,892	-	55,446	-
	219,558	-	90,504	4,667,999

Since the previous year end, it has been formally agreed that the amounts due to Pursuit Dynamics plc, the Company, from its subsidiary, Pursuit Marine Drive Limited, are not repayable within one year of the Company's balance sheet date.

Notes to the financial statements (continued)

For the year ended 30 September 2002

15. Short term investments

	Group 2002 £	Group 2001 £
Short term deposits with banks	1,155,964	2,408,285
Marketable securities	24,648	44,775
	1,180,612	2,453,060

Under the terms of the contract with New Millennium Engineering (Pty) Ltd (see note 11a) 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 2002, the market value of this investment was £24,648 (2001: £44,775).

The Company has no short term investments.

16. Creditors: amounts falling due within one year

	Group *2002* £	Group *2001* £
Trade creditors	38,540	187,052
Other taxation and social security payable	12,670	9,248
Accruals	73,792	90,353
	125,002	286,653

The Company has no creditors.

17. Financial instruments

The financial risks faced by the Group include interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

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 rates, as this exposure is not considered significant. 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 by issues of equity and when market conditions are appropriate.

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

The Group has no financial liabilities at 30 September 2002. Financial assets, which are all in Sterling, consist of short term deposits which earn fixed rate interest of between 2.5% and 3.4075% and cash earning floating rate interest of 0.7%, representing the maximum return available whilst managing interest rate risk and liquidity risk. 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

	2002 £	2001 £
Authorised		
100,000,000 Ordinary shares of 1p each	1,000,000	1,000,000
Allotted, called up and fully paid		
38,158,100 Ordinary shares of 1p each	381,581	381,581

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 1 October 2001	2,492,274
Options granted in the period	688,076
Options lapsed in the period	(635,098)
As at 30 September 2002	2,545,252

No options have been exercised or lapsed since the year end.

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	1,857,176	50p	see below
10 December 2001	264,393	37.5p	see below
10 June 2002	423,683	24.5p	see below

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

- one-third of the shares under option following the first anniversary of the date of the grant;
- a further one-third of the shares under the option following the second anniversary of the date of the grant:
- the final one-third of the shares under option following the third anniversary of the date of the 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 1 October 2001	8,797,229	(1,443,396)
Loss for the financial year	-	(1,593,189)
As at 30 September 2002	8,797,229	(3,036,585)

Company	Share Premium Account £	Profit and Loss Account £
As at 1 October 2001	4,736,044	(179,586)
Loss for the financial year	-	(57,500)
As at 30 September 2002	4,736,044	(237,086)

Notes to the financial statements (continued)

For the year ended 30 September 2002

21. Reconciliation of movements in shareholders' funds

	Group 2002 £	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	(1,593,189)	(1,443,396)
Shareholders funds at start of period	7,735,414	-
	6,142,225	7,735,414

22. Operating lease commitments

At 30 September 2002, the Group had annual commitments under non-cancellable operating leases expiring after five years of £36,000 (2001:£36,000) relating to property. The Company had no other financial commitments at 30 September 2002.

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

	2002 £	2001 £
Operating loss	(1,820,762)	(1,498,176)
Amortisation	557,059	351,974
Depreciation	42,369	3,845
Amounts written off marketable securities	9,340	31,438
Increase in debtors	(13,054)	(90,504)
(Decrease)/increase in creditors	*(161,651)*	*286,653*
Net cash outflow from operating activities	(1,386,700)	(914,770)

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

	2002 £	2001 £
(Decrease)/Increase in cash in period	(121,754)	176,166
Cash (outflow)/inflow from short term deposits	(1,252,321)	2,408,285
Change in net funds from cash flows	(1,374,075)	2,584,451
Net funds at start of period	2,584,451	-
Net funds at end of period (see note 25)	1,210,376	2,584,451

25. Analysis of movements in net funds

	At 1 October 2001 £	Cash flows £	At 30 September 2002 £
Cash at bank and in hand	176,166	(121,754)	54,412
Short term deposits	2,408,285	(1,252,321)	1,155,964
Net funds at 30 September 2002	2,584,451	(1,374,075)	1,210,376

26. Related party disclosures

Certain items of office and computer equipment for use in the business were purchased from Excam Limited, a company of which JGM Heathcote was a controlling director during the period ended 30 September 2001. An amount of £7,473 was paid for this equipment, which is not materially different from its net book value in the books of Excam Limited. In addition, Excam Limited was reimbursed £4,943 for costs incurred on behalf of the Group during the year ended 30 September 2001. There were no such transactions during the year ended 30 September 2002. There were no outstanding balances at the end of the year or prior period.

In the previous period the Group contracted Marine Rubber (Pty) Limited ('Marine Rubber'), a company controlled by A Burns, to provide certain research and development services. During the period Marine Rubber had received £134,697 for these services, at 30 September 2001 there were no amounts outstanding to Marine Rubber. There were no such transactions during the year ended 30 September 2002.

During the year ended 30 September 2002, administration services were provided by Hardcastle Burton, a partnership in which G Pyle has a material interest, amounting to £24,883 (2001: £nil). These services were provided on normal commercial terms. There were no outstanding balances at the year end.