3995041

CONTENTS

COMPANY INFORMATION

Directors	David A Mahony *(Non-executive Chairman)* Michael J Bushell *(Managing Director)* Dr Richard J Chignell *(Technical Director)* Gordon G Watt *(Finance Director)* Antony D Norton *(Managing Director: Adien)*
Company Secretary and Registered Office	Gordon Watt BA FCA FRSA Systems House Mill Lane Alton Hampshire GU34 2QG
Registrars	Capita IRG Plc Balfour House 390-398 High Road Ilford Essex IG1 1BR
Registered Number	3995041
Auditors	RSM Robson Rhodes 186 City Road London EC1V 2NU
Solicitors	Lawrence Graham 190 Strand London WC2R 1JN
Nominated Broker	J M Finn & Co Salisbury House London Wall London EC2M 5TA
Nominated Advisor	Grant Thornton Grant Thornton House Melton Street Euston Square London NW1 2EP
Web Site	www.pipehawk.com

CHAIRMAN'S STATEMENT

The year to 30 June 2002 was in line with our expectations with the second half pre-tax losses reducing to £366,098 compared to £646,698 at the interim stage. The year benefited both from the NYGAS and EU land mine development contracts which provided revenues of £734,151 and sales of PipeHawk being stronger in the second half.

As has previously been announced the company is moving towards the provision of high technology services utilising core ground probing radar technology. The first stage of this programme was implemented by the acquisition of Adien Limited in July 2002. Adien provides a high-quality, unique service based upon the PipeHawk radar system and Antony Norton, Managing Director of Adien and previously its controlling shareholder, joined the PipeHawk board at the date of the acquisition of Adien. The demand for radar assisted surveying services continues to increase and we believe that Adien is uniquely positioned to take advantage of this opportunity.

SUMO Limited, our joint venture with two other partners, successfully launched its franchise programme at the NEC Franchise Exhibition held in October. A high level of interest was shown by potential franchisees and we expect to convert a sufficient number of these during the current financial year to ensure that the growth plans of SUMO are achieved. Each franchise outlet will purchase a PipeHawk machine and it is expected that this will be the single most significant outlet for the sale of PipeHawk units in the future.

The Company has continued its efforts to exploit the US market and a number of favourable evaluations have been reported by US gas companies leading to a rise in the number of prospective new customers. This positive news however coincided with the issuing of a draft document earlier this year by the FCC, the US regulator, regarding the licensing of ultra-wideband devices (UWB), which included GPR. The uncertainty that the document created in the US market affected the GPR industry generally as customers deferred orders until such time as the draft regulations were settled. Recently the regulations were finalised (subject to measurement details) and have now become mandatory; this requires that the PipeHawk product be tested in accordance with the new regulations and then approved by the FCC. We are taking the necessary measures to comply and we currently anticipate that deferred potential orders will be reinstated given our compliance with the regulations now in place.

Concurrent with the finalisation of the FCC regulations the European Telecommunications Standards Institute, ETSI, is drafting UWB regulations for Europe. The company has been involved, with others, in negotiations with the Radiocommunications Agency of the UK and ETSI; we do not anticipate that the new standards, when introduced, will cause difficulties for future sales of PipeHawk either in the UK or Europe.

The advantage of these regulations being finalised is that uncertainty as to product compliance has now been clarified. This is particularly important in relation to the recently agreed extension to the NYGAS contract relating to the development of a Hand Held Radar. This contract totalling US$275,000, which will fully commence in January 2003 and run for approximately seven months, is aimed at producing a concept demonstrator. The Company is in discussion with potential commercial partners who have an interest in the manufacture and marketing of the proposed product.

The LOTUS project, part of the EU land mine programme, has now ended. The company recently received a highly complimentary technical review of its work but the EU has now advised us, and others working in this field, that they will not be inviting new proposals for their consideration until June 2003 with any new contracts that may be awarded not commencing until January 2004. As a consequence of the EU decision we have reduced the Technical Division of the company and will be closing the Church Crookham facility with staff being re-located to our Alton premises.

A number of the factors mentioned above will adversely impact the first half of the current year. However, the removal of the uncertainties relating to licensing regulations and the substantially reduced cost base of the company are expected to benefit the second half as will the NYGAS contract and the anticipated growth in the Adien and SUMO operations. It remains the intention of the company to seek to acquire other high technology service based companies when this is appropriate.

DA Mahony
Chairman

The directors present the annual report for the year ended 30 June 2002.

Principal activities

The principal activities of the Group during the year were the development, assembly and sale of ground penetrating radar (GPR) equipment and the undertaking of complementary contract Research and Development assignments. A review of the operations of the Group is included in the Chairman's statement on page 2.

Results and dividend

The results for the Group for the year are set out in the consolidated profit and loss account on page 10. The directors do not recommend the payment of a dividend for the year. (2001: £nil).

Directors

The present directors of the company are set out on page 1, Mr Meares resigned on 5 December 2001 and Mr Norton was appointed on 5 July 2002. The directors beneficial interests in the share capital of the company were as follows:

	15 November 2002		30 June 2002		30 June 2001	
	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital
D A Mahony	937,220	5.8%	737,220	5.1%	737,220	5.1%
M J Bushell	275,000	1.7%	275,000	1.9%	275,000	1.9%
Dr. R J Chignell	2,204,200	13.6%	2,204,200	15.2%	2,204,000	15.2%
G G Watt	3,646,500	22.4%	2,046,500	14.1%	2,046,500	14.1%
A D Norton	597,015	3.7%	—	—	—	—

The directors are also interested in unissued Ordinary Shares granted to them by the Company under share options held by them pursuant to individual option schemes as set out in note 7 on page 20.

Substantial share interests

Other than directors, the company has been notified of the following persons being interested in more than 3 per cent. of the issued share capital of the company at the date of this report.

	Ordinary Shares of 1p	% of issued share capital
Robert MacDonnell	690,000	4.2%

Suppliers

The Group's policy is, where possible, to pay suppliers in accordance with the terms agreed with them. Where no specific terms have been agreed, the Group's policy is to pay suppliers at the end of the month following that in which the supplier's invoice is received. This policy is made known to staff who handle payments to suppliers and is made known to suppliers on request. For the Group, trade creditors at 30 June 2002 represent 50 days' purchases (2001: 46 days' purchases). The Company itself does not trade.

Statement of directors' responsibilities for the Annual Report

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the AIM Rules.

The Annual Report is available on the company's web site. The maintenance and integrity of PipeHawk's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the re-appointment of RSM Robson Rhodes as auditors of the Group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Approval

The report of the directors was approved by the Board on 15 November 2002 and signed on its behalf by:

Gordon Watt
Secretary

The Company is not subject to the Listing Rules of the Financial Services Authority which require listed companies to disclose how they have applied the principles set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance and whether they have complied with its provisions throughout the period. However, the Company considers these principles to be best practice, subject to their appropriateness given the size of the Company and the Board, and has prepared its corporate governance statement as though the Listing Rules applied.

Directors

The Board currently comprises the non-executive chairman and four executive directors including the Managing Director. The non-executive chairman is considered to be independent, not being a past executive of the company and other than his shareholdings and fees he has no financial interest in the company. He does not have business relationships that would interfere with his independent judgement. The composition of the Board breaches provision A3.1 of the Combined Code, which recommends that one third of the Board is non-executive.

Executive directors' normal retirement age is 60 and non-executive directors' normal retirement age is 70. Both are subject to periodic reappointment by shareholders. The requirements of the company's articles result in each director being reappointed every three years.

The full Board meets formally six times each year. There is a formal schedule of matters reserved for the Board's decision.

All directors have access to the advice and services of the company secretary, who is also responsible for ensuring that Board procedures are followed. There is also a procedure in place for any director to take independent professional advice, if necessary, at the company's expense.

Board Committees

The Company has appointed Remuneration and Audit Committees comprising David Mahony, Gordon Watt and Michael Bushell, which have formally designated duties and responsibilities. David Mahony chairs both the Remuneration Committee and the Audit Committee. These Committee compositions represent breaches of Combined Code provisions B2.1 (that the Remuneration Committee should comprise solely independent non executive directors) and D3.1 (that the Audit Committee should comprise solely non executive directors, a majority of whom are independent) but this is considered justifiable based on the size of the Board. It is on this basis that the Board has not established a separate Nominations Committee.

Internal controls

The directors have overall responsibility for ensuring that the Group maintains a system of internal control, and for reviewing its effectiveness, to provide them with reasonable assurance that the assets of the Group are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and compliance areas, and risk management. There are limitations in any system of internal control, which are designed to manage rather than eliminate risk and can provide reasonable but not absolute assurance against material misstatement or loss.

The Board has considered the guidance provided by the Turnbull report and reviewed the system of internal controls in place. An assessment of the major risk areas for the business and methods used to monitor and control them was also undertaken. In addition to financial risk, this covered operational, commercial, marketing and research and development risks. This risk review has become an ongoing process of identifying, evaluating and managing the significant risks faced by the Company, with regular review by the Board. This process has been in place throughout the year under review and up to 15 November 2002.

The additional key procedures designed to provide an effective system of internal control are that:

- There is an organisational structure with clearly defined lines of responsibility and delegation of authority.
- Annual budgets are prepared and updated as necessary.
- Management accounts are prepared on a quarterly basis and compared to budgets and forecasts to identify any significant variances.
- The Group appoints staff of the required calibre to fulfil their allotted responsibilities.

The Board has considered it inappropriate to establish an internal audit function, given the size of the Group. However, this decision will be reviewed as the operations of the Group develop.

Compliance statement

The Directors consider that throughout the financial year the Company has complied with the operative provisions of Section 1 of the Combined Code prepared by the committee on corporate governance, except as noted above.

Remuneration report

The Remuneration Committee sets the remuneration packages of executive directors. Basic salaries are set having regard to each director's responsibilities and pay levels for comparable positions. In framing its remuneration policy the committee aims to attract and retain directors to run the company successfully without making excessive payments.

Details of individual directors' share options are included in the Directors' Report and details of their remuneration including long term incentive schemes are included in note 7 to the audited financial statements. The notice period in all the directors' service contracts is one year.

The fees of the non executive director are determined by the full Board within the limits set out in the Memorandum and Articles of Association and do not include bonuses, pension benefits, or other benefits.

Shareholder relationships

The Board attaches a high priority to communications with shareholders. Presentations are made to shareholders, institutions and analysts once a year to coincide with the announcement of the final results. Additional dialogue with institutional shareholders is entered into as necessary, mindful of the rules on insiders and price-sensitive information.

The annual general meeting is to be held on 18 December 2002. The resolutions to be proposed at the annual general meeting, together with explanatory notes, appear in the Notice of Annual General Meeting on page 38.

Other information about the company is available on the company's web site.

David Mahony BA, MSc

Non-executive chairman (58)

David is the senior independent non-executive director and was an independent industrial adviser to Hambros Bank between 1972 and 1998, acting as a nominated director on the boards of a wide range of quoted and unquoted companies. He is currently chairman of Applied Optical Technologies Plc, Samedaybooks.co.uk Plc, Consort Information Systems Ltd and PBW Ltd.

Michael Bushell

Managing Director (56)

Mike joined the Group in 1996 as Sales Director rising to Managing Director in 2000. He was previously a main Board Director of MR Group Plc having had a range of responsibilities from production and quality control to sales and acquisitions.

Dr Richard Chignell MSc, PhD, C Eng, FIEE

Technical Director (55)

Richard founded Emrad Limited in 1988, having initially worked for GEC-Marconi on advanced antennas for space and defence systems. He obtained his PhD at Imperial College, London producing a solution for air traffic control radars that is still in use. Subsequently he led the UK MoD's Falkland Islands project to detect plastic mines laid by the Argentinians. The project was a success when a trial minefield was searched and every mine found. He is currently Chairman of Euro-GPR Association.

Gordon Watt BA, FCA, FRSA

Finance Director (49)

Gordon is a chartered accountant having been a partner at Robson Rhodes and then Finance Director/ Deputy Chief Executive of British Bus Plc until it was sold to Arriva Plc for £290 million. He is Non executive chairman of a number of private companies, he became a non-executive director of the Group in 1998 and became finance director in December 2001.

Antony Norton

Managing Director Adien Limited (42)

Tony joined the Board in July 2002 with the Group's acquisition of Adien Limited. He has had over 16 years experience in the "no-dig" industry, holding senior technical and operational positions. Prior to setting up Adien in 1998, he had built up and successfully sold on Drain Care Environmental Ltd.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF PIPEHAWK PLC

We have audited the financial statements on pages 10 to 27.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards. We report to you our opinion as to whether the financial statements give a true and fair view and 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 or the AIM Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 as at 30 June 2002 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes

RSM ROBSON RHODES
Chartered Accountants and Registered Auditors

London, England
15 November 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2002

	Note	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Turnover			
Group and share of joint venture		1,146,059	652,250
Less: share of joint venture turnover		(17,270)	—
Group turnover	2	1,128,789	652,250
Group operating costs	3	(2,063,615)	(1,606,929)
Group operating loss	3	(934,826)	(954,679)
Share of operating loss in joint venture	12	(41,232)	—
Total operating loss		(976,058)	(954,679)
Group interest receivable and similar income	4	6,651	41,552
Group interest payable and similar charges	4	(43,389)	(58,940)
Loss on ordinary activities before taxation	5	(1,012,796)	(972,067)
Tax on profit on ordinary activities	8	—	—
Retained loss for the financial year	22	(1,012,796)	(972,067)

There are no recognised gains or losses other than those reported above.

All operations are continuing.

		p	p
Loss per share			
Basic and diluted	9	(7.0)	(8.2)

CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2002

	Note		30 June 2002 £	30 June 2001 £
Fixed assets				
Intangible assets	10		194,178	277,057
Tangible assets	11		250,669	233,720
Investment in joint venture:				
Share of gross assets		23,997		—
Share of gross liabilities		(31,896)		—
		(7,899)		—
Loan to joint venture		20,000		—
	12		12,101	—
			456,948	510,777
Current assets				
Stocks	14		405,595	265,465
Debtors	15		553,046	557,887
Cash at bank and in hand			2,148	914,895
			960,789	1,738,247
Creditors: *Amounts falling due within one year*	16		(1,120,294)	(596,253)
Net current assets/(liabilities)			(159,505)	1,141,994
Total assets less current liabilities			297,443	1,652,771
Creditors: Amounts falling due within one year	17		(45,034)	(392,566)
Net assets			252,409	1,260,205
Capital and reserves				
Called up share capital	20		144,902	144,652
Share premium account	21		2,394,584	2,389,834
Capital reserves	21		921,359	921,359
Profit and loss account	21		(3,208,436)	(2,195,640)
Equity shareholders' funds	22		252,409	1,260,205

COMPANY BALANCE SHEET
AT 30 JUNE 2002

	Note	30 June 2002 £	30 June 2001 £
Fixed assets			
Investment in subsidiary undertaking	13	90,062	90,062
Current assets			
Debtors	15	2,469,903	1,602,023
Cash at Bank and in Hand		—	886,900
		2,469,903	2,488,923
Creditors: Amounts falling due within one year	16	—	(24,020)
Net current assets		2,469,903	2,464,903
Net assets less current liabilities		2,559,965	2,554,965
Net assets		2,559,965	2,554,965
Capital and reserves			
Called up share capital	20	144,902	144,652
Share premium account	21	2,394,584	2,389,834
Profit and loss account	21	20,479	20,479
Equity shareholders' funds	22	2,559,965	2,554,965

The financial statements were approved by the board on 15 November 2002 and signed on its behalf by:

M J Bushell
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2002

	Note	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Net cash outflow from operating activities	23	(784,985)	(1,281,087)
Returns on investment and servicing of finance			
Interest received		6,651	41,552
Interest element of finance lease rentals		(906)	—
Other interest paid		(42,483)	(58,940)
		(36,738)	(17,388)
Capital expenditure and financial investment			
Payments for tangible fixed assets		(107,342)	(186,852)
Payments for intangible fixed assets		—	(142,458)
Receipts from sale of tangible fixed assets		—	5,050
Loan to joint venture		(20,000)	—
Acquisitions and disposals			
Investment in joint venture		(33,333)	—
Cash outflow before use of liquid resources and financing		(982,398)	(1,622,735)
Management of liquid resources — transfer from (to) deposit account		750,000	(750,000)
Financing			
New bank loans		39,027	300,000
Repayment of loans		(17,099)	(229,815)
Capital element of finance payments		(6,038)	(26,880)
Issues of ordinary shares		5,000	2,838,680
Expenses in connection with share issues		—	(394,256)
		20,890	2,487,729
Increase/(decrease) in cash		(211,508)	114,994

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards under the historical cost convention. As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company has not been separately presented in the financial statements.

Basis of consolidation

The financial statements consolidate those of PipeHawk plc and of its subsidiary undertaking, which are made up to the year end. The results of the subsidiary undertaking are consolidated from the effective date of acquisition.

Investments in joint ventures

Investments in joint ventures are dealt with by the gross equity method of accounting. That is, the consolidated profit and loss account includes the appropriate share of the undertakings' profits and losses whilst the Group's share of their gross assets and liabilities is shown in the consolidated balance sheet.

Turnover

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied to third parties, other than on certain long-term contracts when the estimated sales value of the work performed in the year is included.

Long term contracts

Long-term contracts are those extending in excess of 12 months and any of a shorter duration, which are material to the activity of the period. Attributable profit is recognised once the outcome of a long-term contract can be assessed with reasonable certainty. Provision is made for all foreseeable losses if a contract is assessed as unprofitable.

Tangible fixed assets and depreciation

Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to a recoverable amount. The principal annual rates used are:

Equipment, fixtures and fittings	25 per cent.
Motor vehicles	25 per cent.
Leasehold improvements	20 per cent.

Stocks

Stocks and work-in-progress are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items. Costs include all direct expenditure and an appropriate proportion of attributable production overheads.

Research and development

Development expenditure incurred on specific projects (which comprises direct labour and attributable overhead) is carried forward when its recoverability can be foreseen with reasonable certainty. In the case of internal development projects, it is capitalised against the cost of the specific product when the project is complete and amortised over the expected life of that product. The directors consider that this results in a proper matching of the development costs to the revenues they generate. Accordingly, the book value of development costs is not considered to be a realised loss.

All other research and development expenditure is written off in the year in which it is incurred.

1. ACCOUNTING POLICIES (continued)

Hire-purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged against the profit and loss account so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Operating lease agreements

Rentals applicable to operating leases, where substantially all of the benefits and risk of ownership remain with the lessor, are charged against the profit and loss account on a straight line basis over the term of the lease.

Pension scheme contributions

Pension contributions are written off to the profit-and-loss account in the period in which they fall due. All pension costs are in relation to defined contribution schemes.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 30 June. Transactions in foreign currencies are recorded at the rates ruling at the date of the transactions.

Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

In accordance with FRS 19 deferred tax is not provided for:

(a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;

(b) gains on the sale of non-monetary assets, if the taxable gain will probably be rolled over;

(c) extra tax payable if the overseas retained profits of subsidiaries and associates are remitted in future; and

(d) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Previously under SSAP 15 provision was only made for deferred taxation if it was probable that the tax would be payable in the foreseeable future.

2. SEGMENTAL ANALYSIS

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Turnover by geographical market		
United Kingdom	329,392	67,569
Other EU countries	298,167	161,879
USA	459,724	219,765
Other	41,506	203,037
	1,128,789	652,250

The Group operates in the United Kingdom and consists of a single business segment.

3. GROUP OPERATING LOSS

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Turnover	1,128,789	652,250
Change in stock of finished goods and in work in progress	125,261	64,346
Own work capitalised	—	142,458
Raw materials and consumables	(307,512)	(345,953)
Other external charges	(312,132)	(68,612)
Staff costs	(1,012,546)	(760,074)
Depreciation of tangible and intangible fixed assets	(173,272)	(131,135)
Other operating charges	(383,414)	(507,959)
Group operating loss	(934,826)	(954,679)

4. GROUP NET INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Bank interest receivable	6,651	41,552
Interest payable	(43,389)	(58,940)
	(36,738)	(17,388)
Interest payable comprises interest on:		
Hire purchase agreements	906	2,257
Bank loans and overdrafts	25,872	28,137
Other loans	11,791	21,076
Directors' loans	4,368	6,439
Other interest	452	1,031
	43,389	58,940

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

This is arrived at after charging for the Group:

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Research and development costs		
— current amounts	612,789	308,021
— amortisation of deferred amounts	82,157	82,157
Amortisation of trade marks	722	1,857
Depreciation of tangible fixed assets	90,393	47,121
(Profit)/loss on disposal of fixed assets	—	(1,419)
Auditors' remuneration		
— audit services	24,014	15,402
— non audit services	40,905	6,000
Operating lease rentals:		
— plant and machinery	16,706	8,974
— other including land and buildings	96,000	75,000

6. EMPLOYEES

	Year ended 30 June 2002	Year ended 30 June 2001
Average monthly number of employees, including directors:		
Production	4	4
Selling and research	17	11
Administration	4	7
	25	22

	£	£
Staff costs, including directors:		
Wages and salaries	910,266	680,010
Social security costs	90,420	66,704
Other pension costs	11,860	13,360
	1,012,546	760,074

7. DIRECTORS' REMUNERATION

	Salary and fees £	Benefits In kind £	2002 Total £	2001 Total £
D A Mahony	22,092	—	22,092	14,966
G G Watt	58,011	—	58,011	7,288
M J Bushell	81,004	1,120	82,124	63,625
Dr R J Chignell	46,000	6,737	52,737	56,450
H W V Meares	11,000	272	11,272	29,358
Aggregate emoluments	218,107	8,129	226,236	171,687

Directors' pensions

	2002 No.	2001 No.
The number of directors who are accruing retirement benefits under:		
— defined contributions policies	1	1

Company contributions to directors' defined contribution policies

	2002 £	2001 £
Dr R J Chignell	9,000	10,500

Directors' share options

	No. of options					
	At start of year	Granted during year	At end of year	Exercise price	Date from which exercisable	Expiry date
D A Mahony	83,300	—	83,300	20.0p	23-Dec-00	31-Dec-06
M J Bushell	190,000	—	190,000	27.5p	01-Jul-03	30-Jun-10
M J Bushell	80,000	—	80,000	52.0p	15-Dec-03	14-Dec-10

The Company's share price at 30 June 2002 was 27.5p. The high and low during the period under review were 78.5p and 23.5p respectively.

In addition to the options shown above G G Watt and D A Mahony have been granted options by R J Chignell to acquire 250,000 and 75,000 respectively of the Ordinary Shares held by R J Chignell.

8. TAXATION

The theoretical tax on the loss for the year and the actual taxation charge on the loss for the year are both £nil (2001: £nil). The Group has tax losses amounting to approximately £2.3m (2001: £2.0m), available for carry forward to set off against future trading profits.

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
United Kingdom Corporation Tax		
Current tax on income for the year	—	—
Current taxation		
Deferred taxation		
Net origination/(reversal) of timing differences	—	—
Group Taxation		
Share of joint ventures taxation	—	—
Tax on loss on ordinary activities	—	—

Current tax reconciliation	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Loss on ordinary activities before taxation	(1,012,796)	(972,067)
Theoretical tax at UK corporation tax rate 30%	(303,839)	(291,620)
Effects of:		
— share of joint ventures' losses	12,370	—
— R&D tax credit adjustments	139,219	66,320
— other expenditure that is not tax deductible	5,078	4,394
— accelerated capital allowances	265	(17,106)
— losses carried forward	146,907	238,012
Actual current taxation charge	—	—

Change of accounting policy:

The change in accounting policy for deferred tax had no impact on the group accounts or those of the company.

Deferred tax provided and unprovided at 30 June 2002 was as follows:

	Year ended 30 June 2002		18 months ended 30 June 2001	
	£ Provided	£ Not Provided	£ Provided	£ Not Provided
Accelerated capital allowances	12,000	—	12,000	—
Other timing differences	(12,000)	(670,000)	(12,000)	(524,000)
	—	(670,000)	—	(524,000)

9. LOSS PER SHARE

This has been calculated on losses of £1,012,796 (2001: loss £972,067) and the number of shares used were 14,471,470 (2001: 11,868,407).

Share options in issue do not have a dilutive effect on the earnings for the years ended 30 June 2002, and 2001, because there were reported losses for both periods.

10. INTANGIBLE ASSETS

Group	Development costs £	Trade marks £	Total £
Cost:			
At 1 July 2001 and 30 June 2002	388,930	7,427	396,357
Amortisation			
At 1 July 2001	112,966	6,334	119,300
Charge for the year	82,157	722	82,879
At 30 June 2002	195,123	7,056	202,179
Net book value			
At 30 June 2002	193,807	371	194,178
At 30 June 2001	275,964	1,093	277,057

11. TANGIBLE FIXED ASSETS

Group	Equipment Fixtures and fittings £	Leasehold Improvements £	Motor Vehicles £	Total £
Cost				
At 1 July 2001	234,553	72,187	35,406	342,146
Additions	99,677	7,665	—	107,342
At 30 June 2002	334,230	79,852	35,406	449,488
Depreciation				
At 1 July 2001	86,398	19,560	2,468	108,426
Charged in period	65,699	15,843	8,851	90,393
At 30 June 2002	152,097	35,403	11,319	198,819
Net book value				
At 30 June 2002	182,133	44,449	24,087	250,669
At 30 June 2001	148,155	52,627	32,938	233,720

The net book value of the tangible fixed assets includes £15,925 (2001: £21,716) in respect of assets held under hire purchase agreements. Depreciation charged in the period on those assets amounted to £5,791 (2001: £1,448).

12. INVESTMENT IN JOINT VENTURE

Group	Investment in shares £	Fixed asset investment loan £	Total £
Cost:			
At 1 July 2001			—
Additions	33,333	20,000	53,333
At 30 June 2002	33,333	20,000	33,333
Share of Profit/Losses			
At 1 July 2001	—	—	—
Share of losses for the year	(41,232)	—	(41,232)
At 30 June 2002	(41,232)	—	(41,232)
Net investment			
At 30 June 2002	(7,899)	20,000	12,101
At 30 June 2001	—	—	—

During the year, the company invested £33,333 in a one third stake in SUMO Limited, a joint venture in which there are a further two investors with equal stakes. SUMO Limited is engaged in the development of a GPR franchise operation and has a year end of 31 December. Loan balances of £20,000 due from SUMO Limited have also been included in the carrying value of the investment.

13. INVESTMENT IN SUBSIDIARY UNDERTAKING

Company	Investments in subsidiary £
Cost	
At 1 July 2001	90,062
Additions	—
At 30 June 2002	90,062
Provisions	
At 1 July 2001 and 30 June 2002	—
Net book value	
At 30 June 2002	90,092
At 30 June 2001	90,062

Principal trading Subsidiary	Parent and group interest in ordinary shares and voting rights	Country of incorporation	Principal activity
Emrad Limited	100%	Great Britain	Development and commercial exploitation of ground penetrating radar

14. STOCKS

	Group		Company	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	£	£	£	£
Raw materials	117,688	102,819	—	—
Work in progress	18,894	116,646	—	—
Finished goods	269,013	46,000	—	—
	405,595	265,465	—	—

The replacement cost of the above stocks would not be significantly different from the values stated.

15. DEBTORS

	Group		Company	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	£	£	£	£
Due within one year				
Trade debtors	428,001	147,795	—	—
Amounts recoverable on contracts	—	101,800	—	—
Amounts owed by group undertakings	—	—	2,469,903	1,602,023
Other debtors	109,790	254,171	—	—
Prepayments and accrued income	15,255	54,121	—	—
	553,046	557,887	2,469,903	1,602,023

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	£	£	£	£
Borrowings (note 18)	577,258	165,075	—	—
Trade creditors	254,700	250,627	—	—
Other taxation and social security	52,114	25,797	—	—
Other creditors	204	5,083	—	—
Accruals and deferred income	236,018	149,671	—	24,020
	1,120,294	596,253	—	24,020

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	£	£	£	£
Borrowings (note 18)	45,034	392,566	—	—

18. BORROWINGS ANALYSIS

	Group		Company
	30 June 2002	30 June 2001	30 June 2002 & 2001
	£	£	£
Due within one year			
Bank overdraft	48,761	—	—
Bank loans	332,847	13,333	—
Directors loans	36,407	—	—
Other loans	153,205	145,704	
Obligations under hire purchase agreements	6,038	6,038	—
	577,258	165,075	—
Due after more than one year			
Bank loans	43,524	348,611	—
Obligations under hire purchase agreements	1,510	7,548	—
Directors loan accounts	—	36,407	—
	45,034	392,566	—
Repayable			
Due within 1 year	577,258	165,075	—
Over 1 but less than 2 years	29,478	363,278	—
Over 2 but less than 5 years	15,556	29,288	—
	622,292	557,641	—

Bank loans include loans from Barclays (£76,371) and Allied Irish Bank (£300,000).

£42,222 of the Barclays Bank loan is under the DTI small firms loan guarantee scheme at a rate of 2 per cent. over base rate and is repayable in monthly instalments, the final payment being made on 4 July 2005. The other Barclays Bank loan (£34,149) is at a fixed rate of 9.1 per cent. this is repayable in monthly instalments, the final payment being made on 25 March 2004.

The Allied Irish Bank loan (£300,000) is at an interest rate of 2 per cent. over their COF rate, and is secured by a fixed and floating charge.

The other loans falling due within one year attract interest at 2 per cent. above the Barclays base rate (£145,705) and 12 per cent. (£7,500), (the latter has been repaid since the end of the year).

Directors' loans which were repaid in August 2002 and attracted interest at 12 per cent. per annum may be further analysed as follows:

	At 1 July 2001	Repaid in the year	At 30 June 2002
	£	£	£
D A Mahony	10,000	—	10,000
G G Watt	26,407	—	26,407
	36,407	—	36,407

19. FINANCIAL INSTRUMENTS

The Groups treasury policy is to control operations centrally by arranging borrowings, investing surplus funds and managing and reducing financial risks. The Group does not use derivative instruments.

Financial Liabilities

Included within short term creditors are hire purchase creditors (note 18) which are denominated in sterling and attract interest at fixed rates. All other financial liabilities with the exception of the second Barclays Bank loan (£34,149), set out in note 18, attract interest at floating rates.

Fair Values

There is no material difference between the fair values and book values of the financial assets and liabilities of the Group.

Financial Assets

The financial assets of the group are denominated in sterling. Receipts and payments in foreign currencies are converted into or from sterling when the receipt or payment is made.

	30 June 2002 £	30 June 2001 £
Cash at bank		
Sterling	2,119	913,245
Foreign currencies	29	1,650
	2,148	914,895

Cash at bank and amounts on deposit attract interest at various rates relating to bank rate.

Financial Liabilities: excluding non-debt current liabilities

The interest rate profile at 30 June 2002 was:

	Floating rate £	Fixed rate	Total
Sterling	580,595	41,697	622,292

The interest rate profile at 30 June 2001 was:

	Floating rate £	Fixed rate	Total
Sterling	361,944	195,697	557,641

The interest and repayment terms of these financial liabilities are shown in note 18.

Maturity analysis of financial liabilities

This is shown in note 18.

Foreign currency

The majority of Group transactions are denominated in sterling, with approximately 31 per cent. being denominated in foreign currencies. The LOTUS contract is denominated in euro and the NYGAS contract is denominated in dollars. To date it has not been considered worthwhile to hedge these transactions.

Undrawn borrowing facilities

The Group had undrawn borrowing facilities of £71,239 at 30 June 2002 (2001: £nil).

20. SHARE CAPITAL

	No.	Year ended 30 June 2002 £
Authorised		
Ordinary shares of 1p each	20,000,000	200,000
Allotted and fully paid		
At 1 July 2001	14,465,220	144,652
Issued during the year	25,000	250
At 30 June 2002	14,490,220	144,902

JM Finn & Co have a warrant to subscribe for 594,873 Ordinary Shares exercisable at a price of 52p per share at any time during the period to 22 November 2010.

In addition to the 353,300 share options held by directors, options over ordinary shares have been granted under the Company's share option scheme for staff, such that at 30 June 2002 the following options to subscribe for ordinary shares of 1p each were outstanding.

Date Options Exercisable	Number of Shares	Exercise Price
Between 2003 and 2010	55,000	52p
Between 2004 and 2011	22,500	43p
Between 2005 and 2015	42,500	45p

21. RESERVES

	Capital reserve £	Share premium account £	Profit and loss account £
Group			
At 1 July 2001	921,359	2,389,834	(2,195,640)
Loss for the period	—	—	(1,012,796)
Share issue	—	4,750	—
At 30 June 2002	921,359	2,394,584	(3,208,436)
Company			
At 1 July 2001		2,389,834	20,479
Profit/Loss for the period		—	—
Share issue		4,750	—
At 30 June 2002		2,394,584	20,479

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Group		
Total recognised losses relating to the year	(1,012,796)	(972,067)
Shares issued before group reconstruction	—	12,889
Net proceeds of placing	—	2,444,424
Net proceeds of option exercised	5,000	—
Increase/(decrease) in shareholders' funds	(1,007,796)	1,485,246
Opening shareholders' funds/(deficit)	1,260,205	(225,041)
Closing shareholders' funds	252,409	1,260,205

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Company		
Total recognised profits relating to the year	—	20,479
Shares issued before group reconstruction	—	90,062
Net proceeds of option exercised (2001 - placing)	5,000	2,444,424
Increase in shareholders' funds	5,000	2,554,965
Opening shareholders' funds	2,554,965	—
Closing shareholders' funds	2,559,965	2,554,965

23. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Operating loss	(934,826)	(954,679)
Amortisation of intangible assets	82,879	84,014
Depreciation of tangible fixed assets	90,393	47,121
(Profit)/loss on disposal of tangible fixed assets	—	(1,419)
Working capital movements		
Stock and work in progress	(140,130)	(139,203)
Debtors	4,841	(307,589)
Creditors	111,858	(9,332)
Net cash outflow from operating activities	(784,985)	(1,281,087)

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT OF NET DEBT

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
(Decrease)/Increase in cash	(211,508)	114,994
Cash inflow from increase in debt and hire purchase finance	(15,890)	(43,305)
(Decrease)/Increase in liquid resources	(750,000)	750,000
(Decrease) in net debt from cash flows	(977,398)	821,689
Loan repaid by shares	—	12,889
Inception of hire purchase agreements	—	(23,164)
Increase/Reduction in net debt	(977,398)	811,414
Opening net debt	357,254	(454,160)
Closing net debt	(620,144)	357,254

25. ANALYSIS OF CHANGES IN NET DEBT

	1 July 2001 £	Cashflow £	30 June 2002 £
Cash at bank and in hand	164,895	(162,747)	2,148
Bank overdraft	—	(48,761)	(48,761)
Cash	164,895	(211,508)	(46,613)
Loans	(544,055)	(21,927)	(565,982)
Hire purchase agreements	(13,586)	6,037	(7,549)
Borrowings	(557,641)	(15,890)	(573,531)
Liquid resources deposit a/c	750,000	(750,000)	—
Net debt	357,254	(977,398)	(620,144)

26. POST BALANCE SHEET EVENTS

On 5 July the company acquired the entire issued share capital of Adien Limited, a company specialising in providing a GPR service, for £50,000 in cash, £200,000 by way of issue of shares plus up to £300,000 dependent on the performance of Adien Limited in the year ending 30 June 2004. The deferred consideration is payable no later than 21 December 2004. At the date of the acquisition Adien Limited had net liabilities of approximately £30,000.

On 19 September 1,779,500 PipeHawk plc shares were placed at 25p raising £444,875, with costs estimated at £45,000.

27. FINANCIAL COMMITMENTS

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Capital commitments		
Capital expenditure commitments contracted for, but not provided in the financial statements were as follows:	—	29,332
Operating lease commitments		
The payments which the company is committed to make in the next year under operating leases are as follows:		
Land and buildings — lease expiring		
— within one year	—	—
— one to five years	28,000	21,000
— beyond five years	75,000	75,000
	103,000	96,000
Other leases:		
— within one year	5,580	6,345
— one to five years	6,493	11,213
	12,073	17,558

28. RELATED PARTY TRANSACTIONS

Hugh Meares is a director of Doubleroll Limited, which charged the Group £4,201 (2001: £9,284) in relation to his services.

Directors' loan disclosures are given in note 18.

During the year ended 30 June 2002, there were the following transactions with SUMO Services Limited, a subsidiary of the joint venture company SUMO Limited.

	£
Sales	57,132
Purchases	—

As at 30 June 2002, there was a loan of £20,000 due from SUMO Limited, and £35,005 due in respect of sales.

NOTICE IS HEREBY GIVEN that the annual general meeting (the"AGM") of PipeHawk plc will be held at the offices of Grant Thornton, Grant Thornton House, Melton Street, Euston Square, London NW1 2EP at 11.30 am, on Wednesday, 18 December 2002 for the following purposes:

ORDINARY BUSINESS

1. To receive the accounts for the year ended 30 June 2002, together with the reports of the directors and auditors thereon. **(Resolution 1)**
2. To re-appoint Michael Bushell as a Director, who retires but, being eligible, offers himself for re-election. **(Resolution 2)**
3. To re-appoint Antony Norton as a Director, who retires, having been appointed since the last AGM but, being eligible, offers himself for re-election **(Resolution 3)**
4. To re-appoint RSM Robson Rhodes as auditors of the Company and to authorise the Directors to set their remuneration. **(Resolution 4)**

Registered Office
Systems House
Mill Lane
Alton
Hampshire
GU34 2QG

By order of the Board

Gordon Watt
Director and Secretary

Dated 15 November 2002

Notes:

(1) A member of the Company entitled to attend and vote at the AGM may appoint one or more proxies to attend and, on a poll, vote on his /her behalf. A form of proxy for the use of members who are unable to attend the AGM in person is enclosed. A proxy need not be a member of the Company. This instrument appointing a proxy and the power of attorney (if any) under which it is signed, or a notarially certified copy of that power, must be deposited with the Company's Registrars, Capita IRG plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1BR, not less than 48 hours before the time of the General Meeting.

(2) The completion of a proxy does not preclude a member from attending the AGM and voting in person.

(3) As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders who are registered on the Company's Register of Members at 11.30 am on the 16 December 2002 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of ordinary shares in their names at that time. Changes to entries on the register of members after 11.30 am on 16 December 2002 shall be disregarded in determining the rights of any person to attend and/or vote at the AGM.

(4) Copies of all Directors' service contracts are available for inspection at the Company's registered office during normal business hours on business days from the date of this notice until the close of the AGM and will be available for inspection at the place of the AGM for 15 minutes before the AGM and during the AGM.

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