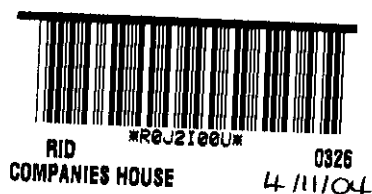


Company Registration No. 3521927 (England and Wales)

**ADVANCED VALVE TECHNOLOGIES LIMITED  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003**





## **Leadership in Corrosion Resistant Valves.**

*Advanced Valve Technologies ("AVT") is an exciting new British technology company establishing itself as the World's leading supplier of composite valves and consolidate its position as an innovator in applying the latest composite technology to solve problems in valves and other associated products mainly for the Offshore, Chemical and Marine industries.*

**Advanced Valve Technologies (AVT), founded in 1998, is the world leader in applying reinforced composite technologies to valves and related products. Their range of 20 bar (300psi) rated full port ball and double offset performance butterfly valves offer outstanding corrosion resistance, 60% weight savings over metallic valves, outstanding pressure-temperature characteristics and a compelling cost of ownership for applications in the Chemical, Offshore and Marine markets.**

**AVT is the only non-metallic valve manufacturer in the world to hold American Bureau of Shipping type approval, TÜV approval, Lloyds Register Type Approval, CE Module H certification, ISO9001, and Firesafe. All AVT's products are compliant to US Coastguard requirements.**

- Outstanding chemical resistance
- 60% weight savings over metal
- 250F/120C at full 300psi/20bar

- Superb resistance to brine attack
- Intrinsic internal and external resistance
- Availability in short lead times

## **ADVANCED VALVE TECHNOLOGIES LIMITED**

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## **CHAIRMAN'S STATEMENT**

### **Report and Accounts 31<sup>st</sup> December 2003**

The year 2003, together with the period to date, has seen an intensive period of product research and development, combined with significant early penetration into our major markets. The company is now the world leader in applying reinforced composite technologies to valves and related products.

This has been made possible by the confidence and faith of our major shareholders, and in particular Quester Capital Management, which is one of the City of London's major venture capital groups, as well as the Board. In addition to the £1.4 million of equity and loans raised in July 2003, and mentioned in the last report, Quester together with members of the Board and others subscribed a further £670,000 of equity in December 2003 and a further £1.8 million of equity in July/September 2004. These subscriptions, which illustrate the strong financial support behind the company, are enabling the company to move quickly towards its immediate goal of self-sufficiency.

As part of the refinancing the company's CVA has been satisfactorily concluded by an issue of shares and the company has pleasure in welcoming over 100 new shareholders to the company

### **Highlights of our achievements during the last 12 months are:**

- Fire safe rating achieved to enable further progress in the offshore industry. AVT valves are the first ever non-metallic valves to achieve this.
- Appointment of McJunkin Corporation as our distributor in the US Chemical market. McJunkin is a \$1 billion turnover company with over 70 depots throughout the US.
- Widespread of acceptance of AVT Valves for handling hydrochloric acid, sulphuric acid and brine, as well as many other difficult substances.
- Significant orders received from the European Chemical Majors.
- Active trials in place, or under negotiation, with the Royal Navy, the US Navy and the French Navy.
- Transfer of our US marketing headquarters to Houston, to achieve closer contact with our main customer base.

### **Management**

Early this year, and having reached the age of 80, Marshall Kaye resigned as Executive Chairman and has become a non-executive director with special responsibilities. All members of the Board acknowledge the great contribution made by Marshall. Indeed, without his vision and determination, the company could not have reached its present position.

I have been an advisor and non-executive director of the company for some three years and have now taken over as Non-Executive Chairman. David Falzani, previously our sales director, has now taken full executive responsibility for the company as managing director.

Our management has recently been strengthened by the appointment of the highly experienced Laurence Relph as Manufacturing Director Designate. He is already making his presence felt. Christopher Parker, ex Rolls Royce Aerospace and an MBA from Manchester Business School has joined us as Director of Sales and Marketing. His team is being strengthened with further experienced sales personnel.

## **Conclusion**

The company now has a unique and competitive product range addressing a multi billion £ world-wide market. We have the financial resources and management in place to exploit this position quickly with the aid of our world-wide distribution network. The potential for our unique product range is vast and we are taking advantage of it as quickly as possible.

The Board would like to thank all members of the company for their hard work and contribution to the progress of the company during the past 12 months.

Ian Taylor  
Chairman

# ADVANCED VALVE TECHNOLOGIES LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2003

The directors present their report and financial statements for the year ended 31 December 2003.

#### Principal activities and review of the business

The principal activity of the company continued to be that of designing, developing, manufacturing and marketing of fluid handling devices.

The results for the year show a loss of £1,410,218 (2002 - £916,220) which reflects the write-off of the significant sums expended on Research & Development and production engineering costs.

#### Results and dividends

The results for the year are set out on page 6.

#### Directors

The following directors have held office since 1 January 2003:

M W Kaye  
D Falzani  
J Gent  
D S Pullman  
D G Innes  
I C Taylor

#### Directors' interests

The directors' interests in the shares of the company were as stated below:

A Ordinary shares of 25p each		
	31 December 2003	1 January 2003
M W Kaye	43,133	37,331
D Falzani	-	-
J Gent	6,000	6,000
D S Pullman	-	-
D G Innes	-	-
I C Taylor	9,100	9,100
B Ordinary shares of 25p each		
	31 December 2003	1 January 2003
M W Kaye	-	-
D Falzani	-	-
J Gent	-	-
D S Pullman	-	-
D G Innes	-	-
I C Taylor	-	-
C Ordinary shares of 7.5p each		
	31 December 2003	1 January 2003
M W Kaye	-	-
D Falzani	-	-
J Gent	-	-
D S Pullman	133,333	133,333
D G Innes	1,705,920	764,667
I C Taylor	1,023,827	333,333
D Ordinary shares of 7.5p each		
	31 December 2003	1 January 2003
M W Kaye	-	-
D Falzani	-	-
J Gent	-	-
D S Pullman	-	-
D G Innes	-	-
I C Taylor	-	-

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

	<b>E Ordinary shares of 7.5p each</b>	
	<b>31 December 2003</b>	<b>1 January 2003</b>
M W Kaye	-	-
D Falzani	-	-
J Gent	-	-
D S Pullman	-	-
D G Innes	-	-
I C Taylor	-	-

	<b>F Ordinary shares of 7.5p each</b>	
	<b>31 December 2003</b>	<b>1 January 2003</b>
M W Kaye	3,000	-
D Falzani	6,000	-
J Gent	-	-
D S Pullman	-	-
D G Innes	1,500	-
I C Taylor	-	-

	<b>G Ordinary shares of 1p each</b>	
	<b>31 December 2003</b>	<b>1 January 2003</b>
M W Kaye	-	-
D Falzani	-	-
J Gent	-	-
D S Pullman	-	-
D G Innes	-	-
I C Taylor	-	-

	<b>H Ordinary shares of 0.0025p each</b>	
	<b>31 December 2003</b>	<b>1 January 2003</b>
M W Kaye	-	-
D Falzani	-	-
J Gent	-	-
D S Pullman	133,333	-
D G Innes	1,857,778	-
I C Taylor	1,444,443	-

	<b>6% Participating Cumulative Redeemable Preference shares of £1 each</b>	
	<b>31 December 2002</b>	<b>1 January 2002</b>
M W Kaye	-	-
D Falzani	-	-
J Gent	-	-
D S Pullman	-	-
D G Innes	-	-
I C Taylor	-	-

During the year options into D shares were cancelled and new options into D shares were issued to the following directors:

	<b>No of Shares Options Cancelled</b>	<b>No of Shares New Options issued</b>
M W Kaye	-	1,000,000
D Falzani	1,000,000	2,500,000
D S Pullman	633,333	500,000
I C Taylor	-	250,000
D G Innes	746,667	500,000

In addition to the above, D G Innes and I C Taylor are holding 333,333 C shares, 9,500 F shares and 333,333 H shares non beneficially as trustees for distributors and employees.

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

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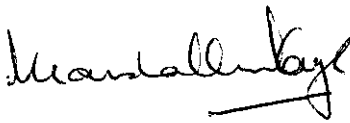
**Directors' responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

On behalf of the board



M W Kaye  
**Director**  
**25 February 2003**  
**Date**



**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	Year ended 31 December 2003 £	Year ended 31 December 2002 £
<b>Turnover</b>	<b>2</b>	120,932	202,824
Cost of sales		(304,512)	(257,526)
<b>Gross loss</b>		(183,580)	(54,702)
Distribution costs		(475,721)	(203,152)
Administrative expenses		(810,432)	(651,771)
Other operating income		35,052	31,624
<b>Operating loss</b>	<b>3</b>	(1,434,681)	(878,001)
Other interest receivable and similar income			550
Interest payable and similar charges	<b>4</b>	(53,357)	(89,169)
<b>Loss on ordinary activities before taxation</b>		(1,488,038)	(966,620)
Tax on loss on ordinary activities	<b>5</b>	77,820	54,900
<b>Loss on ordinary activities after taxation</b>		(1,410,218)	(911,720)
Dividends (including those in respect of non-equity shares)	<b>6</b>	(4,500)	(4,500)
<b>Retained loss for the year</b>	<b>16</b>	(1,414,718)	(916,220)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2003**

	Notes	2003 £	£	2002 £	£
<b>Fixed assets</b>					
Intangible assets	7		114,352		133,674
Tangible assets	8		564,649		628,334
Investments	9		388,118		393,863
			1,067,119		1,155,871
<b>Current assets</b>					
Stocks	10	203,492		155,660	
Debtors	11	156,516		148,527	
Cash at bank and in hand		175,946		-	
		535,954		304,187	
<b>Creditors: amounts falling due within one year</b>	12	(355,071)		(384,072)	
<b>Net current liabilities</b>			180,883		(79,885)
<b>Total assets less current liabilities</b>			1,248,002		1,075,986
<b>Creditors: amounts falling due after more than one year</b>	13		(1,162,709)		(830,140)
<b>Accruals and deferred income</b>	14		(55,928)		(90,980)
			29,365		154,866
<b>Capital and reserves</b>					
Called up share capital	15		1,741,378		1,034,068
Share premium account	16		2,487,879		1,905,972
Profit and loss account	16		(4,199,892)		(2,785,174)
<b>Shareholders' funds</b>	17		29,365		154,866
Equity interests			(8,135)		117,366
Non-equity interests			37,500		37,500
			29,365		154,866

The financial statements were approved by the Board on 25 February 2004

  
M W Kaye  
Director

  
D G Innes  
Director

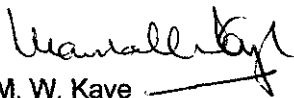
**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2003**


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In preparing these financial statements:

- a) The directors are of the opinion that the company is entitled to exemption from audit conferred by Section 249A(1) of the Companies Act 1985;
- b) No notice has been deposited under Section 249B(2) of the Companies Act 1985, and
- c) The directors acknowledge their responsibilities for:
  - I. Ensuring that the company keeps accounting record which comply with Section 221 of the Companies Act 1985, and
  - II. Preparing accounts which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for the financial year in accordance with the requirements of Section 226, and which otherwise comply with the requirements of this Act relating to accounts, so far as applicable to the company.

The financial statements were approved by the Board on 25 February 2004.

  
M. W. Kaye  
Director

  
D. G. Innes  
Director

# ADVANCED VALVE TECHNOLOGIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2003

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#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

#### 1 Accounting policies

#### 1.2 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

#### 1.3 Goodwill

Acquired goodwill is written off in equal annual instalments over 10 years on a straight line basis, this was previously 5 years.

#### 1.4 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

#### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Tools	10% per annum on straight line basis
Land and buildings Leasehold	Straight line over its expected life
Plant and machinery	10% per annum on straight line basis
Fixtures, fittings & equipment	20% per annum on straight line basis
Motor vehicles	25% per annum on straight line basis

#### 1.6 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### 1.7 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

#### 1.8 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value.

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

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**1 Accounting policies (continued)**

**1.9 Deferred taxation**

The accounting policy in respect of deferred tax has been changed to reflect the requirements of FRS19 - Deferred tax. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Any deferred tax balance will not be discounted.

The above amounts to a change in accounting policy. The previous policy was to provide deferred tax only to the extent that it was probable that liabilities would crystallise in the foreseeable future.

The adoption of the standard has not required a prior period adjustment. If the new policy had been in place in the previous period no asset/liability would have been recognised as the conditions for recognition would not have been satisfied.

**1.10 Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All differences are taken to the profit and loss account.

**1.11 Government grants**

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

**1.12 Group accounts**

The financial statements present information about the company as an individual undertaking and not about its group. The company and its subsidiary undertaking comprise a small-sized group. The company has therefore taken advantage of the exemptions provided by section 248 of the Companies Act 1985 not to prepare group accounts.

**1.13 Going Concern**

During the year new funding of £1,678,884 was raised by way of the issue of 6,977,535 new ordinary shares in the company.

The company's shareholders are supportive and in the opinion of the directors it is appropriate to prepare the financial statements on the basis that the company is a going concern.

**2 Turnover**

Geographical market	Turnover	
	2003 £	2002 £
United Kingdom	129,611	89,573
United States of America	(8,679)	113,251
	<u>120,932</u>	<u>202,824</u>

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**3 Operating loss**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Operating loss is stated after charging:		
Amortisation of intangible assets	19,320	19,320
Depreciation of tangible assets	88,289	80,440
Loss on disposal of tangible assets	-	4,150
Loss on foreign exchange transactions	5,265	634
Operating lease rentals	27,500	25,000
Auditors' remuneration	-	13,000
and after crediting:		
Government grants	35,052	31,624

**4 Interest payable**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
On bank loans and overdrafts	7,965	14,198
On other loans wholly repayable within 5 years	41,910	73,222
Lease finance charges and hire purchase interest	3,482	1,749
	<u>53,357</u>	<u>89,169</u>

**5 Taxation**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
<b>Domestic current year tax</b>		
U.K. corporation tax	<u>(77,820)</u>	<u>(54,900)</u>
<b>Current tax charge</b>	<u>(77,820)</u>	<u>(54,900)</u>
<b>Factors affecting the tax charge for the year</b>		
Loss on ordinary activities before taxation	<u>(1,488,038)</u>	<u>(966,620)</u>
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19.00 % (2002: 20.00 %)	<u>(282,727)</u>	<u>(193,324)</u>
Effects of:		
Non deductible expenses	148	49
Depreciation add back	20,446	19,952
Capital allowances	(16,648)	(24,226)
Chargeable disposals	-	830
Other tax adjustments	<u>200,961</u>	<u>141,819</u>
	<u>204,907</u>	<u>138,424</u>
<b>Current tax charge</b>	<u>(77,820)</u>	<u>(54,900)</u>

The company has estimated losses of £3,525,122 (2002: £1,971,172) available for carry forward against future trading profits

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**6 Dividends**

	2003 £	2002 £
<b>Dividends on non-equity shares:</b>		
Preference interim payable	4,500	4,500

**7 Intangible fixed assets**

	Goodwill £	Development costs £	Total £
<b>Cost</b>			
At 1 January 2003 & at 31 December 2003	25,000	168,207	193,207
<b>Amortisation</b>			
At 1 January 2003	12,500	47,033	59,533
Charge for the year	2,500	16,822	19,322
At 31 December 2003	15,000	47,035	59,535
<b>Net book value</b>			
At 31 December 2003	10,000	104,352	114,352
At 31 December 2002	12,500	121,174	133,674

**8 Tangible fixed assets**

	Tools £	Land and buildings Leasehold £	Plant and machinery £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
<b>Cost</b>						
At 1 January 2003	528,566	36,373	216,008	50,438	9,999	841,384
Additions	7,614	-	11,396	5,595	-	24,605
Disposals	-	-	-	-	-	-
At 31 December 2003	536,180	36,373	227,404	56,033	9,999	865,989
<b>Depreciation</b>						
At 1 January 2003	112,332	11,978	48,266	39,422	1,052	213,050
On disposals	-	-	-	-	-	-
Charge for the year	52,732	6,450	19,361	7,222	2,525	88,290
At 31 December 2003	165,064	18,428	67,627	46,644	3,577	301,340
<b>Net book value</b>						
At 31 December 2003	371,116	17,945	159,777	9,389	6,422	564,649
At 31 December 2002	416,234	24,307	167,742	11,104	8,947	628,334

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

Included above are assets held under finance leases or hire purchase contracts as follows:

	<b>Plant and machinery</b>	<b>Motor Vehicle</b>	<b>Total</b>
<b>Net book values</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 31 December 2003	44,261	6,422	50,683
At 31 December 2002	51,180	9,999	16,694

**Depreciation charge for the year**

31 December 2003	5,653	2,525	8,178
31 December 2002	1,266	1,052	5,190

**9 Fixed asset investments**

	<b>Shares in group undertakings</b>	<b>Loans to group Undertakings</b>	<b>Total</b>
<b>Cost</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 2003	621	393,242	393,863
Additions (Reductions)	-	(5,745)	(5,745)
At 31 December 2003	621	387,497	388,118

**Holdings of more than 20%**

The company holds more than 20% of the share capital of the following companies:

<b>Company</b>	<b>Country of registration or incorporation</b>	<b>Shares held</b>	
		<b>Class</b>	<b>%</b>
<b>Subsidiary undertakings</b>			
Advanced Valve Technologies Inc	USA	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	<b>Capital and reserves 2003</b>	<b>Profit (Loss) for the Year 2003</b>
	<b>£</b>	<b>£</b>
Advanced Valve Technologies Inc	(289,977)	(50,885)

**10 Stocks and work in progress**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Raw materials and consumables	62,938	55,799
Work in progress	112,932	58,576
Finished goods and goods for resale	27,622	41,285
	203,492	155,660



**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**11 Debtors**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Trade debtors	19,174	15,757
Amounts owed by subsidiary undertakings	-	-
Corporation tax	62,000	60,000
Called up share capital not paid	892	25,000
Other debtors	18,194	4,214
Prepayments and accrued income	56,256	43,556
	<u>156,516</u>	<u>148,527</u>

**12 Creditors: amounts falling due within one year**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Bank loans and overdrafts	14,000	8,324
Net obligations under finance leases and hire purchase contracts	16,032	12,477
Trade creditors	125,616	151,992
Taxes and social security costs	16,109	14,212
Other creditors	34,550	108,679
Accruals and deferred income	148,764	88,388
	<u>355,071</u>	<u>384,072</u>

**13 Creditors: amounts falling due after more than one year**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Other loans	720,244	353,918
Other creditors	427,031	444,685
Net obligations under finance leases and hire purchase contracts	15,434	31,537
	<u>1,162,709</u>	<u>830,140</u>

**Analysis of loans**

Wholly repayable within five years	<u>720,244</u>	<u>461,977</u>
	720,244	461,977
Included in current liabilities	-	(108,059)
	<u>720,244</u>	<u>353,918</u>

**Loan maturity analysis**

In more than one year but not more than two years	10,244	353,918
In more than two years but not more than five years	710,000	-
	<u>720,244</u>	<u>353,918</u>

£710,000 of the loans is secured by a fixed and floating charge over the assets of the company.

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**Net obligations under finance leases and hire purchase contracts**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Repayable within one year	16,030	16,030
Repayable between one and five years	24,675	40,705
	40,705	56,735
Finance charges and interest allocated to future accounting periods	(9,239)	(12,721)
	31,466	44,014
Included in liabilities falling due within one year	(12,477)	(12,477)
	18,989	31,537

**14 Accruals and deferred income**

	<b>Government grants</b>
	<b>£</b>
Balance at 1 January 2003	90,980
Amortisation in the period	(35,052)
Balance at 31 December 2003	55,928

**15 Share capital**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
2,000,000 A Ordinary shares of 25p each	500,000	500,000
2,000,000 B Ordinary shares of 25p each	500,000	500,000
25,000,000 C Ordinary shares of 7.5p each	1,875,000	1,125,000
15,000,000 D Ordinary shares of 7.5p each	1,125,000	1,125,000
3,000,000 E Ordinary shares of 7.5p each	225,000	
20,000 F Ordinary shares of 7.5 p each	1,500	
321,032 G Ordinary shares of 1p each	3,210	
12,800,013 H Ordinary shares of 0.0025 p each	32,000	
37,500 6% Participating Cumulative Redeemable Preference shares of £ 1 each	37,500	37,500
	4,299,210	3,287,500
<b>Allotted, called up and fully paid</b>		
979,150 A Ordinary shares of 25p each	244,788	244,788
978,921 B Ordinary shares of 25p each	244,730	244,730
7,864,662 C Ordinary shares of 7.5p each	589,850	264,050
4,893,333 D Ordinary shares of 7.5p each	367,000	243,000
2,944,000 E Ordinary shares of 7.5p each	220,800	
20,000 F Ordinary shares of 7.5 p each	1,500	
321,032 G Ordinary shares of 1p each	3,210	
12,800,013 H Ordinary shares of 0.0025 p each	32,000	
37,500 6% Participating Cumulative Redeemable Preference shares of £ 1 each	37,500	37,500
	1,741,378	1,034,068

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

During the year, 4,343,996 C Ordinary Shares of £0.075 each, 1,653,333 D Ordinary Shares of £0.075 each, 2,944,000 E Ordinary Shares of £0.075 each, 20,000 F Ordinary Shares of £0.075 each, 321,032 G Ordinary Shares of £0.01 each and 12,800,013 H Ordinary Shares of £0.0025 each were issued for a total consideration of £1,340,332, of which £707,310 was the par value and £633,022 Share Premium.

The Participating Cumulative Redeemable Preference shares have no voting rights and are entitled to dividends payable at 12% per annum. The holders of preference shares have priority over the holders of ordinary shares in the event of the company being wound up. Redemption is at the discretion of the company and can occur at any time at par. There are no specific redemption dates.

Share options			
Type of share	No. of shares	Exercise price	Date exercisable
C Ordinary	2,500,000	7.5p	05.09.2013
C Ordinary	1,750,000	7.5p	01.10.2013
C Ordinary	500,000	7.5p	05.12.2013

**16 Statement of movements on reserves**

	Share premium account £	Profit and loss account £
Balance at 1 January 2003	1,905,972	(2,785,174)
Retained loss for the period	-	(1,414,718)
Premium on shares issued during the period, less costs	581,907	-
Balance at 31 December 2003	2,487,879	(4,199,892)

**17 Reconciliation of movements in shareholders' funds**

	2003 £	2002 £
Loss for the financial year	(1,410,218)	(911,720)
Dividends	(4,500)	(4,500)
	(1,414,718)	(916,220)
Proceeds from issue of shares	1,289,217	1,703,884
Net addition to/(depletion in) shareholders' funds	(125,501)	787,664
Opening shareholders' funds	154,866	(632,798)
Closing shareholders' funds	29,365	154,866

**18 Financial commitments**

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2003	2002
Expiry date: Between two and five years	27,500	27,500

**ADVANCED VALVE TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

**19 Directors' emoluments**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Emoluments for qualifying services	243,500	161,653

**20 Employees**

**Number of employees**

The average monthly number of employees (including directors) during the year was:

	<b>2003</b>	<b>2002</b>
	<b>Number</b>	<b>Number</b>
Office and Management	11	9
Production and Development	17	13
	<u>28</u>	<u>22</u>

**Employment costs**

	<b>£</b>	<b>£</b>
Wages and salaries	593,579	372,887
Social security costs	60,551	33,018
	<u>654,130</u>	<u>405,905</u>

**21 Related party transactions**

Mr M W Kaye, who is a director and shareholder of the company, made loans of £40,000 (2002 - £29,994) to the company and was repaid loans of £74,637 (2002 - £85,113). The loans outstanding at the end of the year amounted to £50,244 (2002 - £84,882). Of this sum £40,000 is secured and bears interest at 8% per annum and is repayable in 2008. The balance of £10,244 is unsecured and is repayable in 2005.

Quester VCT Plc, a shareholder, has made loans to the company during the year totalling £978,750 (2002 - £304,405). During the year, loans amounting to £641,781 (2002 - £943,117) were repaid. The loans outstanding as at the end of the year amounted to £670,000 (2002 - £333,031). This sum is all secured and bears interest at 8% per annum and is repayable in 2008.

Advanced Valve Technologies Inc is a wholly owned subsidiary. It is incorporated in the United States of America. During the period Advanced Valve Technologies Limited sold valves, net of returns, totalling (£40,466) (2002 - £99,336) to Advanced Valve Technologies Inc. As at the period end the amount owed by Advanced Valve Technologies Inc to Advanced Valve Technologies Limited for valves supplied was £233,088 (2002 - £273,632).

In addition during the period Advanced Valve Technologies Limited advanced the sum of £35,419 (2002 - £59,891) as working capital loans. The sum of £155,030 (2001 - £119,611) was outstanding at the end of the year.

The total amount owed by Advanced Valve Technologies Inc included within fixed asset investments at the end of the year was £388,118 (2002 - £393,243)