Transense Technologies plc

Report and Accounts
For the Year Ended
31 December, 2005

DIRECTORS AND ADVISERS

Directors	§†* P J Woods *(Chairman)* J A H Perry *(Chief Executive)* §†* A B Baldry G D Eves *(Commercial)* R D Lohr *(Technical)* H G Pearl *(Finance)* §†* J P Pither
	§ *Member of the Audit Committee* † *Member of the Remuneration Committee* * *Non-executive*
Secretaries and Registered Office	Watlington Securities Limited 36 Elder Street London E1 6BT
Auditors	BDO Stoy Hayward LLP Northside House 69 Tweedy Road Bromley Kent BR1 3WA
Bankers	HSBC Bank plc 1 Sheep Street Bicester Oxon OX26 7JA
Nominated Advisers	Bridgewell Limited 128 Queen Victoria Street London EC4V 4BJ
Brokers	Bridgewell Limited 128 Queen Victoria Street London EC4V 4BJ
	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH
Registrars	Capita IRG plc 34 Beckenham Road Beckenham Kent BR3 4TU
Registration Number	1885075

CHAIRMAN'S STATEMENT

2005 was a year of considerable progress. Turnover was similar to last year at £553,000 (2004: £563,000) and gross profit was £468,000 (2004: £521,000). Overheads rose by 10% predominantly because of staff increases and one retirement settlement, as well as increased executive and staff costs from greater travel in support of major licensees' requests as the pace of programmes quickens. This resulted in an increased loss for the year of £874,000 compared with £683,000 in 2004. Cash at the end of December 2005 was £2.4 million following the successful placement announced in October.

Our Intellectual Property (IP) base continued to strengthen during 2005. The number of granted patents per invention increased to 24 from 20 in 2004 and the number of granted patents around the world based on these inventions is far higher. The costs of these new additions, and maintenance of those already granted, came to £143,000 against £136,000 in 2004. Our IP base represents significant shareholder value considerably in excess of our balance sheet and will result in strong dividend flow in the years to come as our licensees launch their product programmes.

This IP is the foundation of our licence deals. Even with strong IP, the development of new licence contracts often appears to take an inordinate amount of time, but this is par for the course where valuable licences are concerned. We recognise this can be frustrating for shareholders and it can also test the patience of management. Notwithstanding this, we need to be very careful when negotiating with large world-class companies to protect fully our valuable IP, regardless of time delays. It is imperative that we get these deals right.

We have finished the Tyre Pressure Monitoring System (TPMS) engineering development programme for commercial vehicle applications on behalf of a major licensee and the launch is going ahead this year. We have previously stressed the importance of this launch since it will trigger the follow on truck applications in Europe and Asia, as well as expediting other projects, particularly passenger car TPMS. The licensee is well known for its very thorough testing and the endorsement this will give Transense's technology will open up further business opportunities.

The team that had been working on commercial vehicle applications is now supporting other licensees and potential licensees by installing our TPMS in passenger cars for demonstration purposes to major automotive Original Equipment Manufacturers (OEMs). We have added European TPMS (different specification) demonstration vehicles to the North American demonstrators and we are in discussions with Japanese companies. Through our own contacts, together with those of certain of our licensees, we already have direct links on TPMS with most of the world's vehicle manufacturers. Our initial target implementation objective for TPMS on passenger vehicles remains 2007.

We are actively engaged in finalising a further arrangement with a Tier One system integrator of major significance that is currently heavily involved in the supply of first generation TPMS. Collaboration with them has involved incorporating the TPMS into the keyless entry system. We anticipate this will be the subject of a further announcement over the coming months.

Now that the key components are becoming available, Transense has been exploring alternative routes to market for TPMS. We have a number of other licence opportunities under discussion, particularly for the aftermarket. In particular, we have identified an aftermarket application in conjunction with the fitment of another safety product. The safety product is already established and marketed worldwide and one country has recently made fitment mandatory for certain categories of vehicles. The Transense TPMS enhances this product and a significant order is expected shortly for delivery this year.

The availability of components has also impacted on STACK. Since taking a licence for F1 and other motorsport and special applications, STACK have developed their dedicated version of the Transense TPMS, which they have presented at a number of international motorsport exhibitions. This has given rise to a considerable volume of enquiries, which should translate to potentially valuable orders in the coming months. The endorsement of Surface Acoustic Wave (SAW) TPMS by motorsport will not go unnoticed by the vehicle and motorcycle manufacturers behind these teams.

We delivered, under contract, our first prototype driveline torque transducer to one of the largest automotive groups in the world, which has now been followed up with a further order for two more systems, one of which will be tested in a passenger vehicle in the next few months. In addition, another of the big three automakers has also commissioned us to supply a driveline transducer for test in its vehicles. These two contracts are extremely important to Transense because, given successful trials, the market that will open up for our technology in this area alone is very large. Our technology has also been selected by a joint research group of three OEMs for a torque sensing demonstration project in the USA. We have high confidence these programmes will be implemented over the next two years and show strong growth thereafter. To enhance these requirements we have developed a new torque and temperature sensor.

Our Electric Power Assisted Steering (EPAS) torque sensors, which provide a more direct feel to the steering, continue to attract the attention of relevant Tier One suppliers, and we are providing support as they demonstrate our technology to their customers.

The technical development of SAW system components is now virtually complete. SAW die and packaging, electronic interrogation and antennae, and Application Specific Integrated Circuits (ASICs) are at, or close to, production status. We are also in the final stages of making an agreement with another major international electronic component supplier. The emphasis is now on refining, extending, protecting and supporting our technological base by working with our licensees as they finalise their plans to market to the automotive OEMs. In this regard it is noteworthy that in 2005 two major licensees requested our strong direct support at these important later stages.

Sensor production has started at Honeywell's Chinese plant. In a recent restructure, Honeywell formed the Emerging Electronic Solutions Group which has responsibility for developing all applications of the SAW sensor business. Transense works very closely with this Group and provides technical support, particularly for application projects. As part of this teamwork, we have been developing new applications for SAW sensors in conjunction with vehicle manufacturers and Tier Ones. Our relationship with Honeywell is developing very well.

In summary, we continue to make sound progress and are now not far from that first licensee launch date. We have of course intimated that before, but, as in all technology developments, hurdles appear and have to be overcome, and eventually are overcome. The heavy investment, dedication and persistence of that first licensee towards ensuring the launch of a perfect new system will have a significant impact on Transense as our other technologies arrive in the market place over the coming years.

In anticipation of the growth before us, we have decided to appoint KPMG Plc as auditors to take over from BDO Stoy Hayward LLP who have served us since we moved to AIM in 1999.

In line with larger companies, we try to keep up with any changes that create a better interface between the Company and its investors. With this in mind, we are working to ensure that shareholders will be able to submit their proxy vote electronically via the internet for any General Meeting resolution following this year's AGM. Full details will be given at the appropriate time.

Once again on behalf of the Board I thank all in the Transense team for their hard work over the past year.

Peter Woods
Chairman

30 March, 2006

STATEMENT OF CORPORATE GOVERNANCE

The Company is quoted on the Alternative Investment Market (AIM) and is therefore not required to comply with the provisions of the Combined Code. Nevertheless, by continuous review, the Company ensures that proper standards of corporate governance are in operation and the principles of the Combined Code are followed so far as is practicable and appropriate to the size and nature of the Company.

A statement of the directors' responsibilities in respect of the financial statements is set out on page 11. Below is a brief description of the role of the Board and its Committees.

The Board

The Board, which consists of four executive and three non executive directors, meets regularly throughout the year and receives timely information in a form and of a quality appropriate to enable it to discharge its duties.

Non executive directors are not appointed for specified terms nor have an automatic right of reappointment. The Board believes that, because of the nature of the business, the contribution and independence of a non executive director is not diminished by long service but that a detailed knowledge of the Company and its activities is most beneficial.

All directors are subject to election by shareholders at the first AGM after their appointment and to retirement by rotation and re-election by shareholders in accordance with the Articles of Association whereby one third of the directors retire every year or, where there is not a multiple of three, the number nearest to but not exceeding one third retire from office.

Audit and Risk Committee

The Audit and Risk Committee comprises three non executive directors under the chairmanship of Peter Woods. They meet at least twice a year and have adopted terms of reference which give it responsibility for reviewing a wide range of financial and business matters. The Committee advises the Board on the appointment of external auditors and it discusses the nature and scope of their work.

The Committee monitors Risk Management by continuous review of all directors' responsibilities in this regard. Individual responsibilities are defined and specified internally.

Nomination Committee

Given its relatively small size, the Board as a whole fulfills the function of the Nomination Committee.

Remuneration Committee

The policy on Directors' remuneration is formulated by the Remuneration Committee, which consists of three non executive directors of the Company with Peter Woods as Chairman. The Committee is responsible for determining the contract terms, remuneration and other benefits of executive directors. Peter Woods and Jon Pither are both experienced in these matters, having served in senior executive capacities with major companies for a number of years.

The report of the Remuneration Committee is set out on pages 6 to 8 below.

Accountability, Internal Control and Risk Management

In preparing these accounts, reports and supplementary information the directors have had due regard to their responsibility to present a clear and balanced assessment of the Company's position and prospects.

Going Concern

After making enquiries the directors have formed a judgement at the time of approving these accounts, that the Company 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.

Internal Financial Control

The directors acknowledge their responsibility for the Company's system of internal financial control. Every system of internal financial control can only provide reasonable and not absolute assurance against material financial misstatement or loss.

The Directors are satisfied that, given the size and current activities of the Company, the financial control procedures adopted and in place adequately meet its present needs and requirements.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy is to ensure that all staff, including executive directors, are adequately motivated and rewarded in relation to companies of similar size and type.

During this development period of the Company's growth and with limited turnover, the Remuneration Committee considers that it is not appropriate at the present time to augment salaries with annual bonuses. In addition the salaries paid are at the lower end of the range when compared to the salaries of directors and senior executives in public companies in similar development situations.

The Remuneration Committee can also grant options over ordinary shares under both the Company's Unapproved Discretionary Share Option Scheme (UDSOS) and its Enterprise Management Incentive Option Schemes (EMI). These schemes potentially offer long term incentives to directors and key personnel.

The Remuneration Committee has appointed Marcussen Consultants, an independent consultancy, to advise them on the future design of the Company's long term incentive and executive share option schemes. This firm has provided no other services to the Company during the year.

In addition to the vote to be held on this Remuneration Report, shareholders will be given the opportunity to question the Remuneration Committee Chairman, Peter Woods, on any aspect of the Company's remuneration policy.

The Board as a whole sets the remuneration of the non-executive directors, which consists of fees for their services in connection with Board and Board Committee meetings. Certain additional services are rewarded by way of extra fees from time to time. The non-executive directors are not eligible for pension scheme membership, but they do participate in the Company's UDSOS.

Each element of remuneration paid to all directors is shown in detail below.

Base Salary and Benefits

Base salaries for all executive directors are reviewed, but not necessarily increased, annually by the Remuneration Committee. In the present development stage of the Company, salary increases are generally restricted to or just above inflation rates. Salary increases based on performance will only be made when the Company's profitability allows.

In addition to base salary the full time executive directors Messrs Eves, Lohr and Perry are also entitled to the following benefits: 25 days holiday per annum; Cash allowance in lieu of a Company car; Permanent Health insurance; Private medical cover for themselves, their spouse and minor children where relevant and Life assurance based on three times basic annual salary.

Executive Share Option Schemes

The Committee considers that potential for share ownership and participation in the growing value of the Company increases the commitment and loyalty of directors and senior executives. All executive directors have been awarded options under both the Company's UDSOS and EMI schemes, the details of which are shown below.

Directors' Pension Policy

All full time executive directors are entitled to enter, and are members of, the Company's defined contribution pension scheme or a private pension scheme if requested, to which the Company contributes the equivalent of 10% of their basic salary. Executive directors participate in the Company's pension scheme on the same basis as other full time employees.

Service contracts

All directors have rolling service contracts which are governed by the following policies, and will also be applied to any future Board appointment:

- The notice period required by either the Company or an executive director to terminate a contract is 6 months.
- There is no notice period with respect to non-executive directors' contracts.
- If the Company terminates without notice, the individual is entitled to a payment in lieu of notice being the value of the maximum notice period in his contract.
- In the event of termination for unsatisfactory performance (if necessary decided by an independent tribunal) or for reasons of misconduct, no compensation is payable.

Directors' Emoluments

Information on directors' emoluments is as follows:

	Basic salary	*Fees*	*Benefits*	*Pension contri-butions*	*Total emoluments 2005*	*Total emoluments 2004*
	£	£	£	£	£	£
Executive Directors						
G D Eves	52,440	–	9,058	5,244	66,742	62,210
R D Lohr	58,000	–	6,538	5,800	70,338	68,550
A Lonsdale (*resigned 22 November 2005*)	8,305	–	1,066	–	9,371	9,707
H G Pearl	27,120	–	–	–	27,120	26,400
J A H Perry	69,720	–	10,355	6,972	87,047	83,996
Non-Executive Directors						
A B Baldry	–	12,000	–	–	12,000	11,000
J P Pither	–	12,000	–	–	12,000	11,000
P J Woods	–	20,000	–	–	20,000	17,000
Total 2005	215,585	44,000	27,017	18,016	304,618	
Total 2004	210,800	39,000	22,503	17,560		289,863

J P Pither's fees are paid to a business in which he has a material interest.

A Lonsdale received a compensation payment of £30,000 in December, 2005 for loss of office.

Under the 2005 UDSOS and the 2005 EMI Plan, both of which were approved at the AGM on 20 May, 2005, the directors were granted options on shares to be exercised at 100p per share, but only if the market price of the shares is at least 200p at the date of exercise. On the date of the grants the market price was 98p per share. All previous options granted at prices above 100p per share were waived.

Directors' interests in the UDSOS are:

	At 1 Jan 2005	*At 31 Dec 2005*	*Earliest Exercise Date*	*Exercise Price per Share*
A B Baldry	20,000	–		598¾p
	–	100,000	24.05.08	100p
G D Eves	400,000	–		352½p
	120,000	–		598¾p
	–	400,000	24.05.08	100p
R D Lohr	100,000	100,000	09.01.06	52p
	–	200,000	24.05.08	100p
H G Pearl	40,000	–		598¾p
	–	100,000	24.05.08	100p
J A H Perry	600,000	–		352½p
	–	550,000	24.05.08	100p
J P Pither	50,000	50,000	01.03.06	26p
	–	50,000	24.05.08	100p
P J Woods	200,000	–		546⅞p
	–	200,000	24.05.08	100p

Directors' interests in the EMI are:

	At 1 Jan 2005	*At 31 Dec 2005*	*Earliest Exercise Date*	*Exercise Price per Share*
G D Eves	47,056	–		212½p
	–	90,000	24.05.08	100p
R D Lohr	48,780	–		205p
	–	90,000	24.05.08	100p
H G Pearl	40,000	–		212½p
	–	90,000	24.05.08	100p
J A H Perry	47,056	–		212½p
	–	90,000	24.05.08	100p

All options must be exercised by the second anniversary of the earliest exercise date.

Share price and performance graph

The share price and performance graph is disclosed in the Directors' Report on page 10.

On behalf of the Board

P J Woods
Chairman, Remuneration Committee

30 March, 2006

REPORT OF THE DIRECTORS

For the year ended 31 December, 2005

The directors present their annual report and audited accounts for the year ended 31 December, 2005.

Business activities, review of the business and future developments

The principle activities of the Company during the year were the continuing development of non-contact battery-less sensors and their electronic interrogation systems for measuring tyre pressure and temperature, non-contact systems for measuring torque in drive shafts and electric power assisted steering, plus various other pressure, temperature and torque devices that utilise the Company's patented Surface Acoustic Wave Technology in automotive applications.

A review of the Company's business and research and development activities for the year together with developments since the year end and for the future is included in the Chairman's Statement on pages 2 and 3.

Results and Dividends

The results for the year ended 31 December 2005 show a loss of £874,000 (2004: £683,000). The directors do not recommend the payment of a dividend (2004: £nil).

Directors

The present directors are listed on page 1. The directors retiring by rotation are Raymond Lohr and Jon Pither and, being eligible, they offer themselves for re-election.

The background of the Company's non-executive directors is as follows:

Peter Woods OBE, Chairman, has comprehensive management experience in such positions as Chairman and Chief Executive of Rover Group Japan Ltd (BMW Rover Group), Rover Group Executive Regional Director of Japan, Australia and South Africa, Chairman of the European Business Community Japan, Consultant and Senior Adviser to the M D Mitsui UK Trading Co., Managing Director of Retainagroup UK and Senior Adviser to DTI/FCO (Japan Dept).

Antony Baldry is the Member of Parliament for Banbury and Barrister at Law and formerly a Minister for eight years in the last government.

Jon Pither has, over the last fifteen years, built up extensive interests and directorships in a portfolio of companies with particular emphasis on emerging businesses. He is Chairman of Active Capital Trust plc, a fund managed by Bluehone Investors LLP who are responsible for substantial shareholdings in Transense Technologies. Previously he was executive director of Glynwed International plc.

Contracts of significance in which the directors had a material interest are disclosed in Note 17.

Substantial shareholdings

At the date of this report, excluding directors' interests shown below, the following substantial shareholdings of 3% or more of the Company's share capital have been notified to the Company:

	Ordinary shares Of 10p each	*%*
Active Capital Trust plc*	4,929,468	8.7
P Lobbenberg	1,775,936	3.1

*This holding is part of a total of 7,022,880 ordinary shares (representing 12.4% of the issued share capital) held by F&C Asset Management plc through client holdings.

Directors' interests

The number of shares in the Company in which the current directors were deemed to be interested at the beginning and end of the year, all of which are beneficially held, were as follows:

	Ordinary shares of 10p each	
	31 December 2005	*1 January 2005*
A B Baldry*	91,200	91,200
G D Eves*†	256,400	364,400
R D Lohr	–	–
H G Pearl*	222,400	222,400
J A H Perry*	1,955,892	1,955,892
J P Pither	92,000	–
P J Woods*	8,756	8,756

*These directors' shareholdings include shares held by their wives.
†During 2005 G D Eves transferred 108,000 shares to his adult children.
A Lonsdale, who resigned as a director during the year, had an interest in 2,392,836 ordinary shares at 1 January 2005.

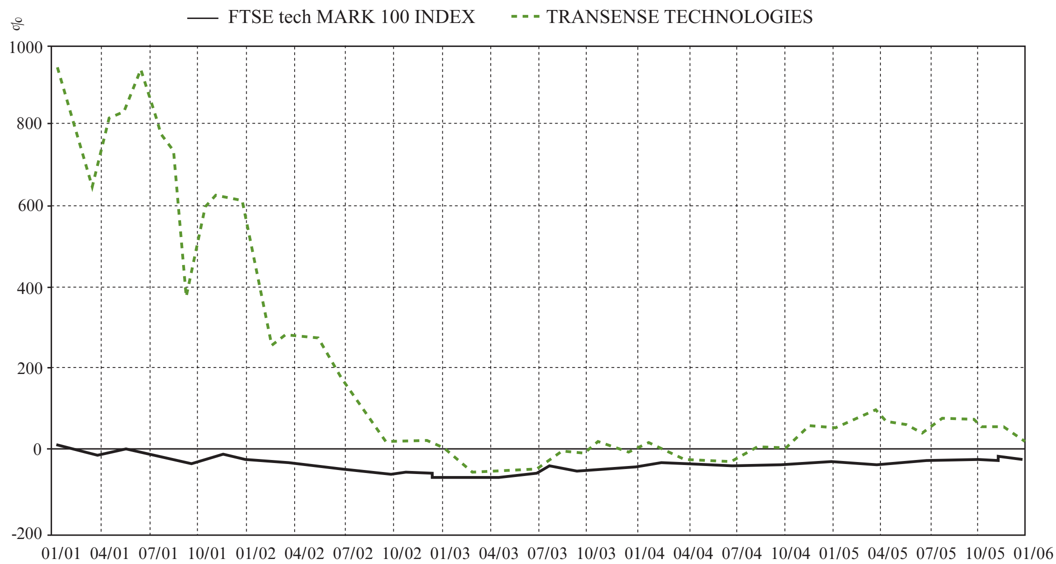
There have been no changes in the above shareholdings between 31 December, 2005 and 30 March March, 2006.

Share price

The mid price of the shares in the Company at 31 December, 2005 was 74½p and the range during the year was 126½p to 73p.

Performance graph

The following graph compares the total return on the Company's shares with that of the TECHMARK index over the last five years. This benchmark is regarded as the most likely one that the majority of shareholders would want to assess their investment in a Company of our size.



This graph shows the Company's share price from January 2001 to the end of 2005 in percentage terms compared with the November 1999 flotation price of 25p, adjusted for the 3 for 1 scrip issue in October 2001. The price at 31 December 2005 was 74½p per share.

Share Option Schemes

The Remuneration Committee is responsible for the operation and administration of the Company's UDSOS and EMI Schemes. In an increasingly competitive market the Committee regards the provision of options as an important incentive for other members of staff as well as directors.

Details of options granted to directors are disclosed in the Remuneration Report on page 8.

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Company and of the results of the Company for that year. In preparing those accounts, the directors are required to:

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 accounts 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.

Risk objectives

The directors adopt a low risk financial objective. The Financial Instruments used are sterling deposits, and the Company does not trade in derivative instruments, see Note 18 to the accounts.

Indemnification of Directors

Qualifying third party indemnity provisions (as defined in Section 309B(1) of the Companies Act 1985) are in force for the benefit of the Directors who held office during 2005.

Policy and practice on payment of suppliers

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then abide by these terms. At 31 December, 2005 trade creditors represented under 45 days purchases.

Auditors

After approval of the accounts, BDO Stoy Hayward LLP have stepped down as auditors of the Company and KPMG Plc have been appointed to fill the vacancy. KPMG have expressed their willingness to continue in this capacity and, in accordance with Section 384 of the Companies Act 1985, a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By Order of the Board

Watlington Securities Limited
Company Secretaries
36 Elder Street
London E1 6BT

30 March, 2006

REPORT OF THE INDEPENDENT AUDITORS

Independent Auditors' Report to the Shareholders of Transense Technologies plc

We have audited the financial statements of Transense Technologies plc for the year ended 31 December, 2005 on pages 13 to 23 which have been prepared under the accounting policies set out on pages 17 and 18.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statement in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 with the Company is not disclosed.

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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 December, 2005 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Registered Auditors
Chartered Accountants

Bromley
Kent BR1 3WA

30 March, 2006

PROFIT AND LOSS ACCOUNT

For the year ended 31 December, 2005

	Notes	**2005** **£'000**	2004 £'000
Turnover	2	**553**	563
Cost of sales		**(85)**	(42)
Gross profit		**468**	521
Administration expenses		**(1,500)**	(1,358)
Operating loss	5	**(1,032)**	(837)
Interest receivable and similar income	6	**58**	54
Loss on ordinary activities before taxation		**(974)**	(783)
Taxation	7	**100**	100
Loss for the year	14	**(874)**	(683)
Loss per share	15	**(1.6p)**	(1.3p)

The turnover and operating loss above are derived from continuing operations.

All recognised gains and losses of the current and preceding periods are included within the profit and loss account presented above.

There are no differences between the losses shown above and their historical cost equivalents.

BALANCE SHEET
as at 31 December, 2005

	Notes	£'000	2005 £'000	£'000	2004 £'000
Fixed assets					
Intangible Assets	8		**1,602**		1,507
Tangible Assets	9		**38**		47
Investments	10		**25**		25
			1,665		1,579
Current assets					
Debtors	12	**598**		590	
Cash at Bank and in Hand		**2,399**		1,161	
		2,997		1,751	
Creditors:					
Amounts falling due within one year					
Trade creditors		**(154)**		(141)	
Other taxes and social security costs		**(21)**		(20)	
Accruals		**(113)**		(81)	
		(288)		(242)	
Net current assets			**2,709**		1,509
Total assets less current liabilities			**4,374**		3,088
Capital and reserves					
Share capital	13		**5,641**		5,376
Share premium	14		**5,368**		3,473
Profit and loss account	14		**(6,635)**		(5,761)
Equity Shareholders' funds	16		**4,374**		3,088

Approved by the Board and authorised for issue on 30 March, 2006 and signed on their behalf

J A H Perry – *Director*

H G Pearl – *Director*

CASHFLOW STATEMENT

For the year ended 31 December, 2005

	Notes		2005		2004
		£'000	£'000	£'000	£'000
Net cash outflow from operating activities	A		**(912)**		(1,079)
Returns on investments and servicing of finance					
Interest received			**58**		54
Taxation					
Corporation tax received			**100**		100
Capital expenditure and financial investment					
Payments to acquire intangible fixed assets		**(151)**		(144)	
Payments to acquire tangible fixed assets		**(22)**		(20)	
Sale of tangible fixed assets		**5**		–	
			(168)		(164)
Cash outflow before management of liquid resources and financing			**(922)**		(1,089)
Management of liquid resources					
(Payments to)/receipts from short term deposits			**(1,200)**		850
Financing					
Issue of new ordinary shares			**2,160**		179
Increase/(decrease) in cash in the year	C		**38**		(60)

NOTES TO THE CASHFLOW STATEMENT

For the year ended 31 December, 2005

A Reconciliation of operating loss to net cash outflow from operating activities

	2005 £'000	2004 £'000
Operating loss	**(1,032)**	(837)
Depreciation and amortisation	**87**	77
Profit on disposal of fixed assets	**(5)**	–
Increase in debtors	**(8)**	(449)
Increase in creditors	**46**	130
Net cash outflow from operating activities	**(912)**	(1,079)

B Reconciliation of net cash flow to movement in net funds

	2005 £'000	2004 £'000
Increase/(decrease) in cash in the year	**38**	(60)
Cash outflow/(inflow) from changes in liquid resources	**1,200**	(850)
Movement in net funds in the year	**1,238**	(910)
Net funds at 1 January	**1,161**	2,071
Net funds at 31 December (Note C)	**2,399**	1,161

C Analysis of net funds

	Liquid resources £'000	Cash £'000	Total £'000
At 1 January	**1,100**	**61**	**1,161**
Cash flow	**1,200**	**38**	**1,238**
At 31 December	**2,300**	**99**	**2,399**

NOTES TO THE ACCOUNTS

For the year ended 31 December, 2005

1. Accounting Policies

(a) Accounting Convention

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention.

(b) Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales.

(c) Depreciation

Depreciation is provided on all Tangible Fixed Assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, or lease period if shorter, as follows:

Plant and Equipment	20%-33% Straight line
Motor Vehicles	25% Straight line

(d) Deferred Taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

(e) Group accounts and basis of consolidation

The financial statements present information about the Company as an individual undertaking. The three subsidiaries existing at 1 January 2005 have been dormant throughout the period and their assets are considered immaterial. Information about the Company's subsidiaries is contained in Note 11 to the accounts.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

The Company is exempt under Section 229(2) of the Companies Act 1985 from the requirement to prepare consolidated financial statements as the directors consider that the Company's subsidiaries may be excluded from consolidation as they are not material.

(f) Research and Development

Expenditure on research is expensed as incurred.

Development expenditure in respect of the non-contact sensor technology meeting the criteria for capitalisation contained in SSAP13 "Accounting for Research and Development" is capitalised and treated as an intangible fixed asset. All amounts deferred are stated at cost and amortised over the periods benefiting from the sale of the products or processes, beginning in the period in which commercial production commences, based on a maximum ten years' useful life on a systematic basis. In the event that commercial production has not commenced within five years of the start of a development project, and is unlikely to do so in the foreseeable future, the costs associated with that project are written off in full on the fifth anniversary of the start of that project.

Government grants received in respect of research expenditure are recognised in the profit and loss account when received.

Government grants received in respect of development expenditure which has been capitalised as an intangible fixed asset, are treated as deferred income and credited to the profit and loss account on a basis consistent with the amortisation of the related asset.

(g) Patent Fees

Externally acquired patent fees are capitalised and treated as an intangible fixed asset. These fees are amortised to the profit and loss account over the period to which the patent relates.

(h) Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment in value.

(i) *Pension Costs*

Contributions to the Company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

(j) *Foreign Currency*

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the balance sheet dates. Any differences are taken to the profit and loss account.

(k) *Operating Leases*

All leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

(l) *Liquid Resources*

For the purposes of the cash flow statement, liquid resources are defined as short term deposits.

2. Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales, a geographical analysis of which is: United Kingdom £3,000 (2004: £1,000), Rest of Europe £5,000 (2004: £7,000) and the United States of America £545,000 (2004: £555,000).

All turnover and pre-tax losses originate in the UK and are attributable to one market and one activity, which is continuing.

All net assets are located in the United Kingdom.

3. Staff costs

The average monthly number of employees (including executive directors) during the year was 20 (2004: 21) made up as follows:

	2005	*2004*
Management and technical	**16**	17
Administration	**4**	4
	20	21

	£'000	*£'000*
Staff costs (for the above employees)		
Wages and salaries	**716**	678
Social security costs	**78**	75
Pension Contributions	**40**	39
	834	792

4. Directors' emoluments

(a) The emoluments of the directors of the Company were as follows:

	2005 ***£'000***	*2004* *£'000*
Management remuneration	**243**	233
Fees as non-executive directors	**44**	39
Pension contributions	**18**	18
	305	290

(b) Emoluments of highest paid director:

	2005	2004
	£'000	£'000
Emoluments	**80**	77
Amounts paid into the Company's defined contribution pension scheme	**7**	7

There are 3 (2004: 3) directors for whom retirement benefits are accruing under money purchase schemes.

Details of each director's total emoluments, share options and compensation for loss of office are given in the Remuneration Report on pages 6 to 8.

5. Operating loss

	2005	2004
	£'000	£'000
This is stated after (charging)/crediting:		
Amortisation of intangible fixed assets	**(56)**	(44)
Depreciation of tangible fixed assets	**(31)**	(33)
Profit on sale of fixed assets	**5**	–
Directors' emoluments (including contributions to pension schemes)	**(305)**	(290)
Auditors' remuneration – for audit services	**(20)**	(23)
for non-audit services	**(12)**	(11)
Provision for bad debts	–	(30)

6. Interest receivable

	2005	2004
	£'000	£'000
Bank interest	**57**	54
Other interest (Note 17(b))	**1**	–
	58	54

7. Taxation on loss on ordinary activities

	2005	2004
	£'000	£'000
Current tax		
Adjustment in respect of previous periods	**100**	100

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2005	2004
	£'000	£'000
Loss on ordinary activities before tax	**974**	783
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004: 30%)	**292**	235
Effects of:		
Expenses not deductible for tax purposes	**(6)**	(7)
Capital allowances for period less than depreciation	**(8)**	–
Tax losses to carry forward	**(278)**	(228)
Research and development credit	**100**	100
Current tax credit for period	**100**	100

Factors that may affect future tax charges
The company has tax losses, subject to agreement by HM Revenue and Customs, in the sum of £5.7 million (2004: £4.8 million), which are available for offset against future profits of the same trade.

8. Intangible fixed assets

	Patent Rights £'000	*Development Costs £'000*	*Total £'000*
Cost			
At 1 January, 2005	**819**	**917**	**1,736**
Additions	**143**	**8**	**151**
At 31 December, 2005	**962**	**925**	**1,887**
Amortisation			
At 1 January, 2005	**229**	**–**	**229**
Charge for the year	**56**	**–**	**56**
At 31 December, 2005	**285**	**–**	**285**
Net book value			
At 31 December, 2005	**677**	**925**	**1,602**
At 31 December, 2004	590	917	1,507

9. Tangible fixed assets

	Plant & Equipment £'000	*Motor Vehicles £'000*	*Total £'000*
Cost			
At 1 January, 2005	**232**	**27**	**259**
Additions	**22**	**–**	**22**
Disposals	**(5)**	**(16)**	**(21)**
At 31 December, 2005	**249**	**11**	**260**
Depreciation			
At 1 January, 2005	**186**	**26**	**212**
On disposals	**(5)**	**(16)**	**(21)**
Charge for the year	**30**	**1**	**31**
At 31 December, 2005	**211**	**11**	**222**
Net book value			
At 31 December, 2005	**38**	**–**	**38**
At 31 December, 2004	46	1	47

At 31 December, 2005 there were no capital commitments (2004: £nil)

10. Fixed Asset Investment – Wheelsure Holdings plc

		Total £'000
(a)	*Cost*	
	At 1 January and 31 December, 2005	**25**

(b) In February 2006 the Company participated in a rights issue funding exercise by Wheelsure. The Company paid £40,490 to the issue and retained its 12% interest in Wheelsure, while its average cost per share increased to 3.6p. The rights issue price was 12p per share.

NOTES TO THE ACCOUNTS *continued*

11. Subsidiary undertakings

(a) The following were subsidiary undertakings at the end of the year:

Name	*Country of incorporation*	*Proportion of voting rights and ordinary share capital held*	*Nature of business*
Transense Technology Research Limited	England	100%	Dormant
Transense Steering Limited	England	100%	Dormant
Piezotec Limited	England	100%	Dormant

12. Debtors

	2005 £'000	*2004 £'000*
Due within one year:		
Trade debtors	**519**	537
Other debtors	**51**	26
Prepayments and accrued income	**28**	27
	598	590

13. Share capital

	2005 £'000	*2004 £'000*
(a) Authorised		
70,000,000 ordinary shares of 10p each (2004: 70,000,000)	**7,000**	7,000
Allotted, called up and issued		
56,408,974 ordinary shares of 10p each (2004: 53,758,974)	**5,641**	5,376

(b) On 13 October 2005, 2,650,000 shares were issued at 85p in an equity placing.

(c) At 31 December, 2005 the following share options remained outstanding under the Company's Unapproved Discretionary Share Option Scheme (UDSOS).

Number of Options	***Option Price***	***Date of Grant***	***Date of Exercise First***	***Last***
600,000	472½p	21.4.01	21.4.04	20.4.06
100,000	52p	9.1.03	9.1.06	8.1.08
50,000	26p	1.3.03	1.3.06	29.2.08
1,650,000	100p	24.5.05	24.5.08	23.5.10

(d) Under an Enterprise Management Incentive Option Agreement (EMI) dated 24 September, 2001 a further 563,104 share options were granted at 212½p per share on 18 October, 2001. However, these options can only be exercised when the option holder has formally released the Company from its liability with respect to an equivalent number of shares in the UDSOS. At 31 December, 2005 47,056 of these options remain.

Other grants under the EMI Scheme, where there is no requirement to release the Company from its liability with respect to any options granted under the UDSOS are:

Number of Options	*Option Price*	*Date of Grant*	*Date of Exercise First*	*Last*
25,000	21½p	6.3.03	6.3.06	5.3.08
10,000	23p	29.5.03	29.5.06	28.5.08
206,250	48p	1.4.04	1.4.07	31.3.09
751,792	50p	25.5.04	25.5.07	24.5.09
25,000	89½p	19.5.05	19.5.08	18.5.10
360,000	100p	24.5.05	24.5.08	23.5.10
30,000	90½p	1.8.05	1.8.08	31.7.10

14. Reserves

	Share premium account £'000	*Profit & loss account £'000*
At 1 January, 2005	**3,473**	**(5,761)**
Issue of Shares	**1,895**	**–**
Loss for the year	**–**	**(874)**
At 31 December, 2005	**5,368**	**(6,635)**

15. Loss per Share

The calculation of basic loss per share is based on the loss after taxation of £874,000 (2004: £683,000) and on 54,339,796 ordinary shares being the weighted average number of shares in issue during the year (2004: 53,437,097).

The Company incurred a loss for the years 2005 and 2004 and, given the circumstances, a calculation in respect of the diluted loss per share is not considered relevant.

16. Reconciliation of Movement in Shareholders' Funds

	***2005* £'000**	*2004 £'000*
Equity Interest		
Opening Shareholders' Funds	**3,088**	3,592
Issue of Shares – par	**265**	57
Issue of Shares – share premium	**1,895**	122
Loss for year	**(874)**	(683)
Closing Shareholders' Funds	**4,374**	3,088

Costs of £92,000 were incurred on issue of shares during the year (2004: £nil).

17. Transactions with Directors and Associated Undertakings

(a) Anthony Lonsdale, who resigned as a director of the Company in November 2005, is also a director of Sensor Technology Limited (Sensor). During the year the Company received invoices from Sensor in the sum of £52,000 (2004: £nil) in respect of commission on sales. Conversely the Company raised invoices to Sensor in the sum of £1,000 (2004: £1,000). All transactions were on an arms' length basis.

(b) During the year the Company granted a £25,000 loan to its associated undertaking, Wheelsure Holdings Plc. Interest is charged at 9% per annum and the loan matures in 2007.

18. Financial Instruments

The Company finances its operations by raising equity financing on the Alternative Investment Market. The Company does not trade in derivative instruments. The fair value of financial instruments was not significantly different to book value.

At 31 December, 2005 the Company's financial instruments comprised sterling cash of £2,300,000 on fixed rate monthly deposit (2004: £1,100,000), and the weighted average interest rate obtained for the year was 3⅞% (2004: 3¾%).

Short term debtors and creditors are not treated as financial assets and liabilities respectively for the purposes of FRS13 disclosures. There are no monetary assets or liabilities of the Company that are not denominated in the functional currency of the operations involved.

19. Pensions

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund (Note 3). There were no prepayments or accruals at the year end (2004: £nil).

20. Commitments under Operating Leases

As at 31 December, 2005, the Company had annual commitments under non-cancellable operating leases as set out below:

	2005 Land and Buildings £'000	***2005 Other £'000***	*2004 Land and Buildings £'000*	*2004 Other £'000*
Operating leases which expire in two to five years	**41**	**–**	–	–
Operating leases which expire in less than one year	**–**	**–**	36	–

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at North Oxfordshire Consortium, Building 52, Heyford Park, Upper Heyford, Bicester, Oxon OX25 5HD on 19 May, 2006 at 11.30 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the directors and the accounts for the year ended 31 December, 2005.
2. To re-elect as a director R D Lohr who retires by rotation and offers himself for re-election.
3. To re-elect as a director J P Pither who retires by rotation and offers himself for re-election.
4. To receive and adopt the remuneration report contained within the annual report for the year ended 31 December, 2005.
5. To re-appoint KPMG Plc as auditors and to authorise the directors to fix their remuneration.
6. That for the purposes of and pursuant to Section 80 of the Companies Act 1985 as amended ("the Act") and in substitution for all existing and unexercised authorities, the directors of the Company be and are hereby generally and unconditionally authorised to exercise all or any powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £1,359,102.60 to such persons, at such times and generally on such terms as the directors may determine provided that:

   (a) this authority shall, unless previously revoked or varied by the Company in general meeting, expire on the date 15 months after the date of approval of this resolution or the conclusion of the next Annual General Meeting of the Company whichever first occurs; and

   (b) this authority shall allow and enable the directors of the Company to make an offer or an agreement before the expiry of the period referred to in sub-paragraph (a) above which would or might require relevant securities to be allotted after such expiry of such period and the directors of the Company may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

7. In substitution for all existing and unexercised authorities and subject to the passing of Resolution 6 above, the directors be and they are hereby generally authorised and empowered pursuant to Section 95 of the Act to allot relevant securities (as defined in Section 80(2) of the Act), pursuant to the authority conferred by Resolution 6 above, as if Section 89(1) of the Act did not apply to any such allotment provided that the power conferred by this resolution, unless previously revoked or varied by special resolution of the Company in general meeting shall be limited to:

   (a) the allotment of equity securities in connection with a rights issue or other issue in favour of the holders of ordinary shares where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them, subject only to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or by virtue of shares being represented by the depositary receipts, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and

   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal value of £282,044 (representing five per cent of the Company's issued ordinary share capital)

   and shall expire on the date 15 months after the date of approval of this Resolution or the conclusion of the next Annual General Meeting of the Company, whichever first occurs, save that the directors may before the expiry of the authority conferred by this Resolution make offers or enter into agreements which would or might require relevant securities of the Company to be allotted after the expiry of such period and the directors may allot relevant securities in pursuance of any such offers or agreements as if the relevant authority hereby conferred had not expired.

By Order of the Board

Watlington Securities Limited
Company Secretaries 30 March, 2006

Registered Office: 36 Elder Street, London E1 6BT

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrars of the Company (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
4. Copies of the directors' service contracts and a statement of the directors' share interests and those of their families will be available for inspection at (i) the Registered Office of the Company during normal business hours on each business day from the date of this notice until the conclusion of the Annual General Meeting and (ii) at North Oxfordshire Consortium, Building 52, Heyford Park, Upper Heyford, Bicester, Oxon OX25 5HD on 19 May, 2006.
5 In accordance with Regulation 34(1) of the Uncertificated Securities Regulations 1995, the Company specifies that only those shareholders registered in the Company's register of members at 11.30 a.m. on 17 May, 2006 (or in the case of adjournment 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting.

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Transense Technologies plc

FORM OF PROXY FOR ANNUAL GENERAL MEETING
to be held on 19 May, 2006 at 11.30 a.m.

I/We ....

of ....
(Block Capitals please)

being (a) member(s) of the above named company, and entitled to vote at general meetings of the company,

hereby appoint the Chairman of the Meeting (see note (iv) below) ....
as my/our proxy to vote for me/us and on my/our behalf in the manner indicated below at the Annual General Meeting of the Company to be held on 19 May, 2006 at North Oxfordshire Consortium, Building 52, Heyford Park, Upper Heyford, Bicester, Oxon OX25 5HD at 11.30 a.m. and at any adjournment thereof.

Unless otherwise instructed the proxy will vote or abstain as he/she thinks fit on the Resolutions set out below, and on any other business arising at the Annual General Meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate space opposite each resolution how you wish your vote to be cast.

	ORDINARY RESOLUTIONS	**FOR**	**AGAINST**
1.	To receive and adopt the report of the directors and the accounts for the year ended 31 December, 2005.	☐	☐
2.	To re-elect as a director R D Lohr who retires by rotation and offers himself for re-election.	☐	☐
3.	To re-elect as a director J P Pither who retires by rotation and offers himself for re-election.	☐	☐
4.	To receive and adopt the remuneration report contained within the annual report for the year ended 31 December, 2005.	☐	☐
5.	To re-appoint KPMG Plc as auditors and to authorise the directors to fix their remuneration.	☐	☐
6.	To approve the authority to allot the securities pursuant to Section 80 of the Companies Act 1985.	☐	☐
	SPECIAL RESOLUTION		
7.	To disapply the statutory pre-emption rights pursuant to Section 95 of the Companies Act 1985.	☐	☐

Signed this ....day of..2006

....
(Please sign here)

Notes

(i) To be effective, this form of proxy, duly completed, must be lodged at the registered office of the Registrars of the Company at Capita IRG plc, P.O. Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time appointed for the Meeting or any adjournment thereof together with, if appropriate, the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of attorney.

(ii) In the case of a corporation, this form must be under its Common Seal, or under the hand of an officer or attorney duly appointed to sign the name.

(iii) In the case of joint holders, the signature of one holder will suffice and the vote of the senior who tenders a vote will be accepted to the exclusion of the votes of the other joint holders. For these purposes seniority will be determined by the order of names standing on the register of members.

(iv) If any other person is preferred as a proxy, strike out the words "the Chairman of the Meeting", insert the name of the proxy desired in the blank space and initial the alteration. A proxy need not be a member of the Company.

(v) The return of this proxy will not prevent a member from attending the meeting or any adjournment thereof and voting in person if he so wishes.

(vi) In accordance with Regulation 34 of the Uncertified Securities Regulations 1995, the Company specifies that only those members entered in the Company's register of members at 11.30 a.m. on 17 May, 2006 will be entitled to attend and vote at the meeting in respect of the number of Ordinary Shares in the capital of the Company registered in their name at that time. Changes to the entries on the register after this time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

(vii) Any alteration to this form should be initialled.

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BUSINESS REPLY SERVICE
License No. MB122

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Capita Registrars (Proxies)
P.O. Box 25
34 Beckenham Road
Beckenham
Kent BR3 4BR

Second Fold

First Fold