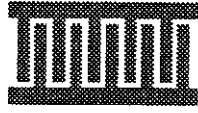
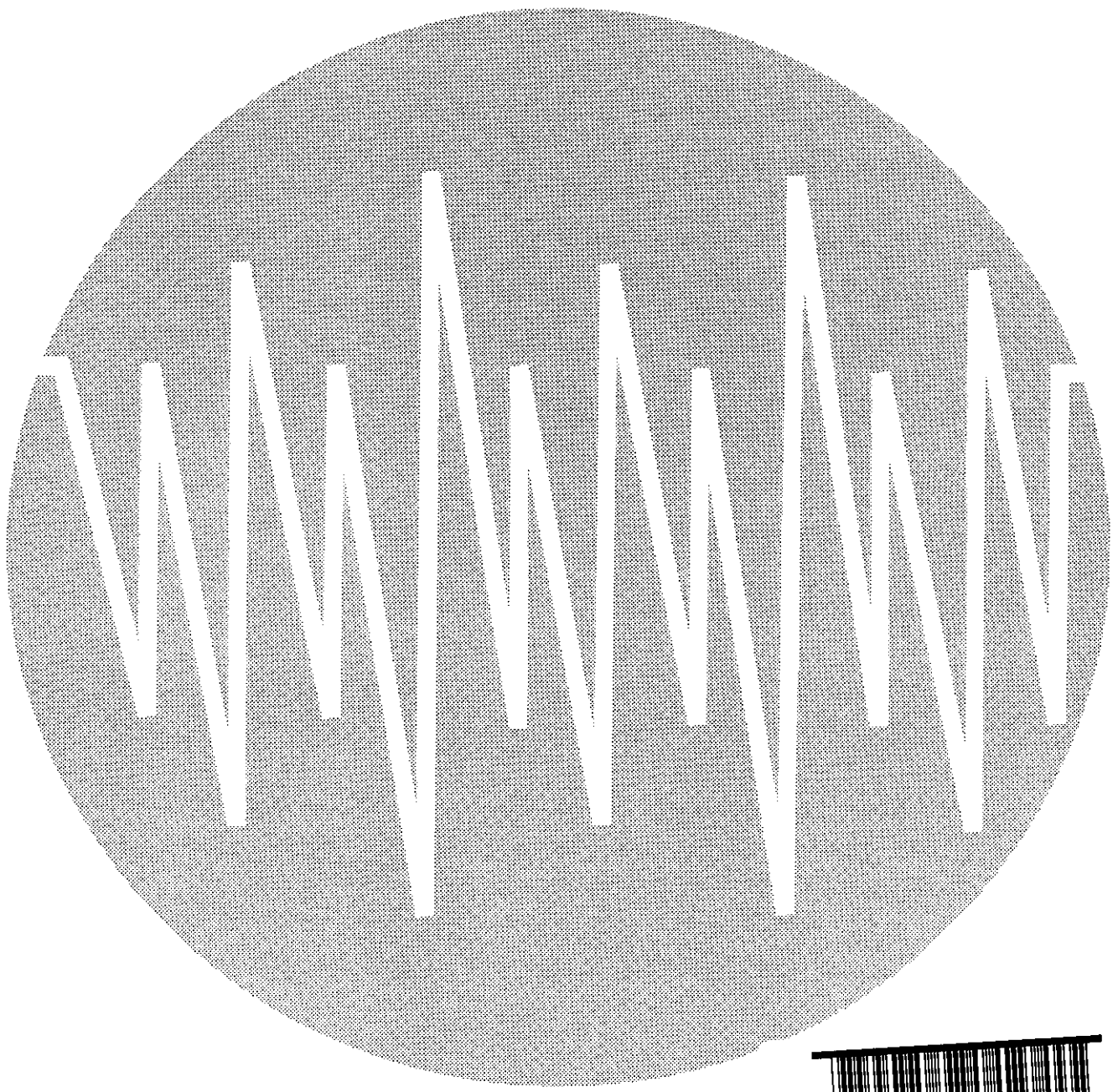


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# Transense Technologies plc



**Report and Accounts  
For the Year Ended  
31 December, 1999**





## DIRECTORS AND ADVISERS

1	<b>Directors</b>	<p>*G H Jarrett (<i>Chairman</i>) J A H Perry (<i>Chief executive</i>) G D Eves (<i>Commercial</i>) H G Pearl (<i>Finance-appointed 29 November, 1999</i>) A Lonsdale (<i>Technology</i>) *J F George *A B Baldry (<i>appointed 29 November, 1999</i>) B Lonsdale (<i>resigned 27 October, 1999</i>) F R R Rowe (<i>resigned 22 September, 1999</i>)  *Non-executive</p>
5 4	<b>Secretaries and Registered Office</b>	<p>Watlington Securities Limited 36 Elder Street London E1 6BT</p>
2	<b>Auditors</b>	<p>BDO Stoy Hayward Northside House 69 Tweedy Road Bromley Kent BR1 3WA</p>
1	<b>Bankers</b>	<p>Lloyds TSB PLC PO Box 663 79-81 Brompton Road London SW3 1DD</p>
1	<b>Nominated Broker</b>	<p>Astaire &amp; Partners Limited 40 Queen Street London EC4R 1HN</p>
1	<b>Nominated Advisers</b>	<p>Nabarro Wells &amp; Co. Limited Saddlers House Gutter Lane Cheapside London EC2V 6BR</p>
1	<b>Registrars</b>	<p>Moorgate Registrars plc Dukesmead House 39 High Street Chelmsford Essex CM1 1DE</p>
1	<b>Registration Number</b>	<p>1885075</p>



## CHAIRMAN'S STATEMENT

I am pleased to present your Company's audited financial results for the year ended 31 December, 1999. You will see that the operating loss rose from the previous year by £391,000 to £658,000. This increase is attributable to the expansion of your Company's commercial and development activities and to the consequential rise in personnel costs. Included in these costs is a provision of £200,000 being an estimate of the accrued cost under current legislation of the potential employer's National Insurance contributions payable on the exercise of employees' share options from 26 November, 2002. The basis of this provision is explained in Note 5 to the financial statements on page 17. This type of potential liability is currently being contested by many companies. The balance sheet reflects the equity fund raising which occurred concurrently with the flotation in December on the Alternative Investment Market ("AIM").

### **Recent Milestones**

Before discussing some of the exciting projects on which your Company is presently working, and looking forward to its future prospects, I should like to review the key events of the past financial year:

#### *Application Licence*

In September your Company signed its first application licence agreement, for the use of its sensor technology in tyre monitoring. Transense's contractual partner is SmarTire Systems Inc., a North American public company which is a world leader in tyre pressure monitoring systems. SmarTire recognised that your Company's surface acoustic wave ("SAW") pressure monitoring system, which dispenses with the need for an independent power source, could replace conventional technology in the next generation of SmarTire systems.

Your Company is now working with SmarTire to produce a prototype in-car system, with the objective of mass production by 2002.

The safety and fuel economy gains of a low-cost real-time tyre pressure monitoring system, with dashboard display, should become self evident and should assist early market acceptance.

#### *Board Additions*

I was pleased last November to welcome two new directors to your Company's Board. Howard Pearl FCA joined as Finance Director and Tony Baldry, M.P. became a non-executive director.

Roland Rowe and Bryan Lonsdale both retired from the Board, although Mr Lonsdale, a co-founder, remains associated with your Company as Research Manager.

I wish to thank them both for their contributions while in office.

#### *AIM Flotation and Fundraising*

Your Company's shares were introduced in December to AIM pursuant to a Placing and Open Offer. The Open Offer was oversubscribed by a factor of twenty. I should like to thank long-term shareholders for their support, which enabled the Open Offer to be so successful, and to take the opportunity of welcoming the many new shareholders who have become owners of Transense since the flotation.



## CHAIRMAN'S STATEMENT *continued*

### **Current Developments**

#### *Steering Technology*

Some shareholders will be familiar with Transense's ongoing work on electric power assisted steering ("EPAS") systems. Your Company is engaged jointly with several large, multinational companies on the development of EPAS.

The Company's Torqsense torque transducer has successfully completed a ten million cycle test, conducted by Instron Schenck. This equates to the life of a car. In addition, your Company's own Peugeot 106, fitted with our technology, has driven 40,000 km with no troubles attributable to the torque transducer.

Dura Automotive's Elektr-a-Steer, incorporating the Torqsense transducer, is also being vigorously tested on "in-car" systems. Other tests carried out with Oxford University validate the durability and performance of our Torqsense transducer.

EPAS is safety-critical and draws together mechanical and electronic technologies from multiple sources. It is therefore understandable that the lead time between development and acceptance by the automotive manufacturers will be extended.

Interest, however, in column-mounted power steering sensors is increasing. Valeo, a large automotive electronic and control systems supplier based in France, is now working closely with us to develop a sensor which will incorporate Transense's technology into its steering systems. Valeo delivers electronic components to most major automobile producers.

#### *Tyre Monitoring*

I referred to your Company's work on tyre pressure sensing when discussing the licence with SmarTire. A system for monitoring tyre tread wear, which will be able to be incorporated into the pressure monitoring system, is currently under development.

#### *Traction Control*

Developments incorporating your Company's sensor technology into traction control systems are progressing well. I am pleased to inform you that your Company has been working with a major international engineering company with a view to that company acquiring a licence to incorporate Transense's technology into its drive shafts. The development programme with this company has taken upwards of a year and the first generation of "intelligent" drive shafts could be in production in two years' time. Each unit would require two SAW devices and an application-specific integrated circuit ("ASIC").

This prospective licensee currently produces many millions of drive shafts a year and, under licensing arrangements in place between them and their own manufacturing partners, the number of units incorporating the Transense technology could be substantial.



## CHAIRMAN'S STATEMENT *continued*

### *Manufacturing Agreements*

Your Company intends to manufacture only to the stage of acceptable working prototypes. Transense will continue to develop its technology and new applications for that technology, while granting end users and manufacturers the licenses needed to customise and apply the technology and to produce in volume.

Significant progress has been made over the past year to convert the electronic circuit boards, which are the "intelligence units" of the sensors, into single ASICs. I am now able to report that your Company is at an advanced stage of negotiating a full manufacturing licence with Thomson-CSF, whereby Thomson will fund the ongoing engineering costs and provide a volume manufacturing facility to supply ASICs to Transense's application licensees. The advantage of this arrangement to the application licensees is that Thomson will also be able to "customise" the ASICs to meet licensees' special performance requirements.

A manufacturing licence agreement with Sawtek Inc. is currently under negotiation. Sawtek is one of the fastest growing companies in North America and currently produces 1.5 million SAW devices a week. In exchange for your Company granting Sawtek a licence to manufacture SAW devices for use in applications of Transense technology, and to sell these to application licensees in sufficient volume to satisfy their requirements, Sawtek will meet all necessary tooling costs and will pay a royalty on all SAW devices sold.

### *Intellectual Property*

Your Company's core patent, taken out nine years ago, has been surrounded by fourteen further patent applications, and I anticipate that additional patents will be applied for from time to time. A leading firm of patent agents is being retained by your Company to advise and protect its intellectual property rights.

### *Future Prospects*

Commercial opportunities for your Company's technology continue to increase and I am gratified at the extent to which your Company has been able to position itself in readiness for volume demand. I look forward to informing shareholders of further positive developments over the remainder of this year, and I view the future with considerable optimism.

### **Conclusion**

It remains only for me to thank all my Board colleagues and your Company's small but growing team of dedicated and highly-skilled staff for keeping your Company at the forefront of its particular technological field and for rising to the additional demands imposed by the AIM floatation towards the end of last year.

Graham Jarrett  
*Chairman*

22 March, 2000



## REPORT OF THE DIRECTORS

For the year ended 31 December, 1999

The directors present their annual report and audited accounts for the year ended 31 December, 1999.

### Business activities, review of the business and future developments

The principal activities of the Company during the year were the continuing development of a non-contact sensor which acts as a torque transducer to enable electric power assisted steering, tyre pressure monitoring and other automotive applications to be introduced into motor vehicles.

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 to 4.

### Results and dividend

The results for the year ended 31 December, 1999 show a loss of £683,998 (1998: loss £259,746). The directors do not recommend the payment of a dividend.

### Directors

The directors who served during the year are listed on page 1. Mr F R R Rowe resigned on 22 September, 1999 and Mr B Lonsdale resigned on 27 October, 1999. Mr H G Pearl and Mr A B Baldry, who were appointed as additional directors on 29 November, 1999, now retire in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election. The directors retiring by rotation are Mr J A H Perry and Mr J F George and, being eligible, they offer themselves for re-election.

The background of the Company's non-executive directors, who all sit on both the Audit and Remuneration Committees, is as follows:-

G H Jarrett is a professional manager who has held a number of directorships in public and private companies. He is at present chairman and chief executive of a printed circuit board manufacturer having gained broad experience in the electronics industry with the Thorn-EMI Group where he was managing director of three subsidiary companies.

A B Baldry is the Member of Parliament for Banbury and formerly a Minister for eight years in the last Conservative government. He is a member of the Commons Trade and Industry Select Committee and a Barrister at Law.

J F George has held a number of public and private company directorships. He is at present a director of three companies including CRASH, the charity for the homeless.

Contracts of significance in which the directors had a material interest are disclosed in Note 19.

### Substantial shareholdings

At the date of this report, the following substantial shareholdings of 3 per cent. or more of the Company's share capital have been notified to the Company:

	<i>Ordinary shares of 10p each</i>	<i>%</i>
B Lonsdale**	705,409	6.33
AIM Trust Plc	1,005,806	9.03
AIM VCT Plc	466,954	4.19
A J Ingham	535,409	4.81

\*\*see under Directors' interests below



## REPORT OF THE DIRECTORS *continued*

### Directors' interests

The number of shares in the Company in which the current directors were deemed to be interested as at 31 December, all of which are beneficially held, are as follows:

	<i>1999</i>	<i>1998</i>
	<i>Ordinary shares of 10p each</i>	<i>Ordinary shares of 1p each</i>
G H Jarrett	153,136	48,764
J A H Perry	543,413	568,413
G D Eves	—	—
H G Pearl	10,000	—
A Lonsdale**	725,409	825,343
J F George	80,000	50,000
A B Baldry	—	—

\*\*Sensor Technology Limited, a company controlled by A & B Lonsdale, has a beneficial interest in 50,000 ordinary shares of the Company as at the end of the year.

As at 31 December, 1999 A and B Lonsdale jointly and severally hold the voting rights to a further 643,309 ordinary shares owned by Mr A J Ingham.

### Directors' remuneration

#### (i) Policy

The policy on Directors' remuneration is formulated by the Remuneration Committee, which consists of the three non-executive directors of the Company with Mr G H Jarrett as chairman. The policy is to ensure that the executive directors are adequately motivated and rewarded in relation to companies of similar size and type.

For the year ended 31 December, 1999 the remuneration packages consisted of a basic salary, allowances and certain benefits in kind, including the provision of, or allowance for, a car and health insurance. G D Eves was also awarded a bonus during the year. Starting in 2000 the Company will make contributions to a pension scheme on behalf of J A H Perry and G D Eves up to a maximum of 10 per cent. of their basic salary.

#### (ii) Remuneration

Information on the remuneration of the directors for the year ended 31 December, 1999 is as follows:

	<i>Basic salary</i>	<i>Fees</i>	<i>Benefits</i>	<i>Total emoluments</i>	
				<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Executive Directors</b>					
A Lonsdale	667	—	444	1,111	—
B Lonsdale	—	—	444	444	—
G D Eves	28,750	—	—	28,750	1,250
H G Pearl	1,250	—	—	1,250	—
J A H Perry	41,667	—	2,849	44,516	44,157
F R R Rowe	20,001	—	—	20,001	18,000
<b>Non-Executive Directors</b>					
G H Jarrett ( <i>Chairman</i> )	—	8,500	—	8,500	8,000
J F George	—	4,000	—	4,000	4,000
A B Baldry	—	833	—	833	—
<b>Total</b>	<u>92,335</u>	<u>13,333</u>	<u>3,737</u>	<u>109,405</u>	<u>75,407</u>
<b>Total 1998</b>	<u>40,000</u>	<u>31,250</u>	<u>4,157</u>	<u>75,407</u>	

The fees of the Chairman and J F George are paid to businesses in which they have a material interest. The salary of Mr Rowe was paid to a business in which he has a material interest.



## REPORT OF THE DIRECTORS *continued*

### (iii) Options

Details of share options for each director are as follows:

	<i>Options at 1 January, 1999</i>	<i>Granted during year</i>	<i>Exercised/ lapsed during year</i>	<i>Options at 31 December, 1999</i>	<i>Final Exercise Date</i>	<i>Exercise price per share</i>
G H Jarrett	40,000		(40,000)	–		
	50,000		(50,000)	–		
	–	50,000	–	50,000	25.11.04	100p
J A H Perry	–	250,000	–	250,000	25.11.04	100p
G D Eves	–	200,000	–	200,000	25.11.04	100p
H G Pearl	–	100,000	–	100,000	25.11.04	100p
A Lonsdale	150,422	–	(150,422)	–		
	–	50,000	–	50,000	25.11.04	100p
J F George	50,000		(50,000)	–		
	–	50,000	–	50,000	25.11.04	100p
A B Baldry	–	50,000	–	50,000	25.11.04	100p

The mid-price of the shares in the Company as at 31 December, 1999 was 323.5p and the range during the year was 63.5p to 323.5p.

On 16 March, 2000 the Remuneration Committee issued a further 150,000 options to J A H Perry and 100,000 options to G D Eves with an exercise price of 1410p per share and a final exercise date of 15 March, 2005. Of these additional options 50 per cent. may only be exercised three years or more after meeting each of two performance criteria.

### (iv) Service contracts

All directors have service contracts starting on 29 November, 1999. The duration of all contracts is fixed for one year and thereafter unless and until terminated with six months' notice in writing by either party, with the exception of Mr J A H Perry whose contract extends for three years. Notwithstanding, all contracts awarded to executive directors automatically terminate when the director reaches the age of 70. The basic annual salaries of existing contracts are £60,000 for J A H Perry, £45,000 for G D Eves, £15,000 for H G Pearl, £14,000 for G H Jarrett, £10,000 for each of A B Baldry and J F George and £8,000 for A Lonsdale.

In addition A Lonsdale, together with his twin brother, entered into consultancy agreements with the Company dated 28 August, 1991 (as varied by the agreements dated 22 August, 1994) under which they will each be entitled to commission on direct sales, and royalties from sub-licences, at the following rates:

<i>Annual turnover</i>	<i>Sales Commission</i>	<i>Royalties Commission</i>
Up to £5 million	1.25 per cent.	2.50 per cent.
Between £5 - £10 million	0.75 per cent.	1.50 per cent.
Over £10 million	0.50 per cent.	1.00 per cent.

In the event of the death of either brother during their consultancy, the survivor will be entitled to his brother's commissions in addition to his own.



## REPORT OF THE DIRECTORS *continued*

(v) *Share option schemes*

(a) The remuneration committee, which is responsible for the operation and administration of the Company's unapproved share option scheme, regards the provision of options as an important incentive for management and personnel in an increasingly competitive market. Details of options granted to directors are detailed in (iii) above.

(b) Options granted to other members of staff by the Remuneration Committee during the year were as follows:

67,000 ordinary 10p shares at 100p each exercisable until 25 November, 2004

Subsequent to the year end the Remuneration Committee has issued further options as follows:

25,000 ordinary 10p shares at 250p each exercisable until 13 January, 2005

15,000 ordinary 10p shares at 1200p each exercisable until 14 March, 2005

97,000 ordinary 10p shares at 1410p each exercisable until 15 March, 2005

(c) In addition to the options granted during the year to the directors and staff as detailed above, the following options on shares remain outstanding as at 31 December, 1999:

(i) 98,382 ordinary 10p shares at 120p each exercisable until 24 June, 2001

(ii) 250,000 ordinary 10p shares at 200p each exercisable until 30 September, 2001

(iii) 107,500 ordinary 10p shares at 120p each exercisable until 28 November, 2001

(iv) 30,000 ordinary 10p shares at 25p each exercisable until 30 June, 2002

(v) 500,000 ordinary 10p shares at 23p each exercisable until 21 August, 2002

(vi) 200,000 ordinary 10p shares at 66.5p each exercisable until 31 August, 2002

(vii) 500,000 ordinary 10p shares at 200p each exercisable until 30 September, 2002

(viii) 100,000 ordinary 10p shares at 50p each exercisable until 31 October, 2002

(ix) 50,000 ordinary 10p shares at 80p each exercisable until 6 July, 2003

(x) 55,000 ordinary 10p shares at 60p each exercisable until 24 June, 2006

Since the year end the options detailed under (vii) above have been cancelled.

### **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 profit or loss 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 accounts on a 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 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.



## REPORT OF THE DIRECTORS *continued*

### **Corporate Governance**

The Company is not required to comply with the provisions of the Combined Code. However the Company has sought to apply those provisions which it considers appropriate to the size and nature of the organisation.

The Company did not find it practical, largely because of its size, to embrace fully all of the recommendations of the Code and has not complied during the year with provisions A.1.2 and A.1.3, which relate to matters specifically reserved for the board for decisions and the provision, if necessary, of independent legal advice for directors; and provision A.5.1 concerning the procedure for the appointment of new directors to the board.

Provisions A.2.1 and D.3.1 concerning the appointment of a senior non-executive director and the number of non-executive directors on the board were not fully complied with during the year, but have been instigated at the date of this report.

### *Directors and Directors' remuneration*

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

Given the small size of the board, the board as a whole fulfils the function of the nomination committee.

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 non-executive directors are considered to be independent with Mr J F George having been appointed as senior independent non-executive director on 6 March, 2000. Prior to that date the board had considered that such an appointment was not appropriate.

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.

The Audit Committee comprises the three non-executive directors under the chairmanship of Mr G H Jarrett. They meet at least twice a year and review both interim and annual financial statements prior to their submission to the board for final approval, as well as matters raised by management and the external auditors.

The Remuneration Committee also comprises the three non-executive directors under the chairmanship of Mr G H Jarrett. The Committee meets at least once a year to set directors' salaries and benefits including proposed share options. They also consider and confirm executive salary changes and share option grants which are submitted by the chief executive.

The remuneration of the non-executive directors is set by the board as a whole.

Further details of directors' remuneration are set out in the Report of the Directors.

### *Relations with Shareholders*

The board welcomes as many shareholders as possible to attend the AGM and encourages discussions on issues of concern or areas of uncertainty that they may have during and after the formal proceedings.



## REPORT OF THE DIRECTORS *continued*

### *Accountability and Audit*

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. Close liaison with the auditors has been maintained in this respect, with the Annual Report containing a statement by the directors of their responsibilities in respect of the accounts in addition to a report of the auditors setting out their reporting responsibilities.

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.

The directors have restricted their reporting on internal controls to financial controls.

The directors are responsible 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. However, the directors have reviewed the system currently in place and have considered its appropriateness and effectiveness. An independent Quality Manager has also advised on all aspects of control.

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.

### **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 to abide by these terms. At 31 December, 1999 trade creditors represented 102 days purchases. However the figure at year end included £78,984 relating to costs incurred in respect of the Open Offer, Placing and Introduction to AIM. If these are excluded from the calculation the resultant figure becomes 55 days.

### **Year 2000 issues**

No problems have been experienced to-date as a result of Year 2000 issues and the directors believe that sufficient procedures are in place to minimise the Company's exposure to such issues. No significant costs have been incurred to-date.

### **Auditors**

Messrs BDO Stoy Hayward have expressed their willingness to continue in office as auditors, 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 Ltd*  
Watlington Securities Limited  
36 Elder Street  
London E1 6BT  
*Company Secretaries*

22 March, 2000



## REPORT OF THE AUDITORS

### Auditors' report to the shareholders of Transense Technologies plc

We have audited the financial statements on pages 12 to 21 which have been prepared under the historical cost convention and the accounting policies set out on page 16.

#### *Respective responsibilities of directors and auditors*

As described on page 8, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### *Basis of audit opinion.*

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 the company's affairs as at 31 December, 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*BDO Stoy Hayward*

**BDO Stoy Hayward**

*Registered Auditors*

Bromley, Kent

22 March, 2000



## PROFIT AND LOSS ACCOUNT

For the year ended 31 December, 1999

	Notes	1999 £	1998 £
Turnover	2	75,834	71,685
Cost of sales		<u>(22,451)</u>	<u>(36,789)</u>
Gross profit		53,383	34,896
Administration expenses		<u>(711,442)</u>	<u>(301,938)</u>
Operating loss (including additional National Insurance contributions: £200,000 (1998: £nil))	5	(658,059)	(267,042)
Interest receivable and similar income		5,028	9,745
Interest payable and similar charges	6	<u>(30,967)</u>	<u>(2,449)</u>
Loss on ordinary activities before taxation		(683,998)	(259,746)
Taxation	7	—	—
Loss on ordinary activities after taxation attributable to shareholders		<u>(683,998)</u>	<u>(259,746)</u>
Dividends		—	—
Loss for the year	16	<u>(683,998)</u>	<u>(259,746)</u>
Loss per share			
Basic	17	(8.8p)	(3.6p)
Diluted	17	(6.5p)	(3.3p)

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

### Statement of total recognised gains and losses

There are no recognised gains or losses in the current and preceding year other than the loss for the year.



## BALANCE SHEET

as at 31 December, 1999.

	Notes	1999	1998
		£	£
<b>Fixed assets</b>			
Intangible Assets	8	666,467	502,220
Tangible Assets	9	27,456	31,332
Investment	10	19,631	—
		<u>713,554</u>	<u>533,552</u>
<b>Current assets</b>			
Stock and Work-in-Progress	12	—	2,021
Debtors	13	53,780	69,885
Cash at Bank and in Hand		1,927,733	3,793
		<u>1,981,513</u>	<u>75,699</u>
<b>Creditors:</b>			
<b>Amounts falling due within one year</b>			
Trade creditors		(194,803)	(121,714)
Other taxes and social security costs		(29,220)	(5,239)
Accruals		(189,850)	(22,043)
Short term loan	14	—	(87,408)
Directors loan account		—	(3,134)
		<u>(413,873)</u>	<u>(239,538)</u>
<b>Net current assets/(liabilities)</b>		<u>1,567,640</u>	<u>(163,839)</u>
<b>Total assets less current liabilities</b>		<u>2,281,194</u>	<u>369,713</u>
<b>Provision for liabilities and charges</b>			
Other provisions	5	(200,000)	—
<b>Total assets less total liabilities</b>		<u>2,081,194</u>	<u>369,713</u>
<b>Capital and reserves</b>			
Called up share capital	15	1,037,752	71,038
Share premium account	16	2,487,070	1,058,305
Other capital reserve	16	5,000	5,000
Profit and loss account	16	(1,448,628)	(764,630)
<b>Equity Shareholders' funds</b>	18	<u>2,081,194</u>	<u>369,713</u>

Approved by the Board on 22 March, 2000

J A H Perry – Director

H G Pearl – Director



## CASHFLOW STATEMENT

For the year ended 31 December, 1999

		1999		1998	
	Notes	£	£	£	£
<b>Net cash outflow from operating activities</b>	A		<b>(159,360)</b>		<b>(149,515)</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		5,028		9,745	
Interest paid		<u>(30,967)</u>		<u>(2,449)</u>	
Net cash (outflow)/inflow from returns on investments and servicing of finance			<b>(25,939)</b>		<b>7,296</b>
<b>Taxation</b>					
UK Corporation tax			–		–
<b>Capital expenditure</b>					
Payments to acquire intangible fixed assets		(174,654)		(187,050)	
Payments to acquire tangible fixed assets		(4,547)		(26,019)	
Payment to acquire investments		<u>(19,631)</u>		<u>–</u>	
			<b>(198,832)</b>		<b>(213,069)</b>
			<b>(384,131)</b>		<b>(355,288)</b>
Equity dividends paid			–		–
<b>Cash outflow before financing</b>			<b>(384,131)</b>		<b>(355,288)</b>
<b>Financing</b>					
Issue of new ordinary shares		2,395,479		–	
Short term loans		<u>(87,408)</u>	<b>2,308,071</b>	<u>57,408</u>	<b>57,408</b>
<b>Increase/(decrease) in cash in the year</b>			<b>1,923,940</b>		<b>(297,880)</b>



## NOTES TO THE CASHFLOW STATEMENT

For the year ended 31 December, 1999

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

	1999	1998
	£	£
Operating loss	(658,059)	(267,042)
Depreciation and amortisation	18,830	16,142
Decrease in debtors	16,105	928
Increase in creditors	261,743	87,661
Decrease in work-in-progress	2,021	12,796
Increase in provision for liabilities and charges	200,000	-
<b>Net cash outflow from operating activities</b>	<b><u>(159,360)</u></b>	<b><u>(149,515)</u></b>

### B Reconciliation of net cash flow to movement in net debt

	1999	1998
	£	£
Increase/(decrease) in cash in the year	1,923,940	(297,880)
Cashflow from change in debt	87,408	(57,408)
Change in net debt	2,011,348	(355,288)
Net (debt)/funds at 1 January	(83,615)	271,673
Net funds/(debt) at 31 December	<b><u>1,927,733</u></b>	<b><u>(83,615)</u></b>

### C Analysis of changes in net funds/(debt) during 1999

	<i>At</i> <i>1 January</i>	<i>Cash</i> <i>Flows</i>	<i>At</i> <i>31 December</i>
	£	£	£
Cash at Bank and in Hand	3,793	1,923,940	1,927,733
Short term loan	(87,408)	87,408	-
	<b><u>(83,615)</u></b>	<b><u>2,011,348</u></b>	<b><u>1,927,733</u></b>



# NOTES TO THE ACCOUNTS

For the year ended 31 December, 1999

## 1. Accounting Policies

### (a) Accounting Convention

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention. In preparing these financial statements the Company has adopted the following Financial Reporting Standards for the first time:

FRS 12 – Provisions, Contingent Liabilities and Contingent Assets

FRS 13 – Derivatives and Other Financial Instruments: Disclosure

The adoption of the above standards has given rise to additional disclosures (see Notes 3,5 and 20).

### (b) 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% Reducing balance
Motor Vehicles	25% Reducing balance

### (c) Deferred Taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that an asset or liability will crystallise.

### (d) Government Grants

Government grants are credited to the profit and loss account in the same year as the expenditure is charged.

### (e) Group accounts

The financial statements present information about the Company as an individual undertaking and not about its Group. All subsidiaries have been dormant throughout the period and assets are considered immaterial. Information about the Company's subsidiaries is contained in Note 11 to the accounts.

### (f) Research and Development

Expenditure on research, development and patents in respect of the non-contract sensor technology is capitalised and treated as an Intangible Asset to the extent that the expenditure is not covered by Government grants. This expenditure has been deferred to future periods. It is stated at cost. Amortisation will commence when income is being generated from the technology involved.

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

### (g) Stock and work in progress

Stock and work in progress is stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

### (h) Valuation of investments

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

## 2. Turnover

Turnover represents the invoiced amount of goods sold stated net of value added tax, a geographical analysis of which is: United Kingdom £69,134 (1998: £62,097), Rest of Europe £3,500 (1998: £6,388), and the United States of America £3,200 (1998: £3,200).

All turnover and pre-tax loss originates in the UK and is attributable to one market and one activity, which is continuing.



## NOTES TO THE ACCOUNTS *continued*

### 3. Staff costs

The average monthly number of employees (including executive directors) during the year was 9 (1998: 8) made up as follows:

	1999	1998
Management and technical	8	7
Administration	1	1
	9	8
	£	£
Staff costs (for the above employees)		
Wages and salaries	183,543	119,246
Social security costs	15,173	9,534
Social security costs falling due after more than one year	200,000	-
	398,716	128,780

### 4. Directors' emoluments

The emoluments of the Directors were as follows:

	1999	1998
	£	£
Management remuneration	96,072	63,407
Fees as directors	13,333	12,000
	109,405	75,407

Details of each director's emoluments and share options are given in the Directors' report on pages 6 and 7.

### 5. Operating loss

	1999	1998
	£	£
<b>This is stated after charging/(crediting):</b>		
Depreciation of tangible fixed assets	8,423	9,917
Amortisation of intangible fixed assets	10,407	6,225
Directors' emoluments	109,405	75,407
Social security costs falling due after more than one year	200,000	-
Auditors' remuneration – for audit services	6,750	3,200
for non-audit services	5,000	-
Research and development	78,229	89,153
Government grants received	(78,229)	(89,153)

Social Security costs falling due after more than one year comprises a provision of £200,000 (1998: £nil), being an estimate of the potential Employer's National Insurance charge following the exercise of employees' Share Options from 26 November, 2002. This provision arises on the notional gain on the options based on the difference between the option price of 100p and the market price of the Company's shares of 323.5p at 31 December, 1999. The liability would only become payable should the options be exercised, with the calculation being based on the market price of the shares at that time.

### 6. Interest payable and similar charges

	1999	1998
	£	£
On loans:	30,967	2,449

### 7. Taxation

There is no charge to taxation arising on the results for the year. The Company has approximately £1,550,000 (1998: £780,000) of tax losses, subject to the agreement of the Inland Revenue, to carry forward against future trading profits.



## NOTES TO THE ACCOUNTS *continued*

### 8. Intangible fixed assets

	<i>Patent Rights</i> £	<i>Research &amp; Development</i> £	<i>Total</i> £
<i>Cost</i>			
At 1 January, 1999	87,158	421,287	508,445
Additions	54,368	120,286	174,654
At 31 December, 1999	<u>141,526</u>	<u>541,573</u>	<u>683,099</u>
<i>Amortisation</i>			
At 1 January, 1999	6,225	–	6,225
Provided during the year	10,407	–	10,407
At 31 December, 1999	<u>16,632</u>	<u>–</u>	<u>16,632</u>
<i>Net book value</i>			
At 31 December, 1999	<u>124,894</u>	<u>541,573</u>	<u>666,467</u>
At 31 December, 1998	<u>80,933</u>	<u>421,287</u>	<u>502,220</u>

Research and development costs will be amortised from the commencement of income being generated from the technology involved.

At 31 December, 1999 there were no capital commitments (1998: £48,000)

### 9. Tangible fixed assets

	<i>Plant &amp; Equipment</i> £	<i>Motor Vehicles</i> £	<i>Total</i> £
<i>Cost</i>			
At 1 January, 1999	69,779	17,466	87,245
Additions	4,547	–	4,547
At 31 December, 1999	<u>74,326</u>	<u>17,466</u>	<u>91,792</u>
<i>Depreciation</i>			
At 1 January, 1999	45,651	10,262	55,913
Charge for the Year	6,622	1,801	8,423
At 31 December, 1999	<u>52,273</u>	<u>12,063</u>	<u>64,336</u>
<i>Net book value</i>			
At 31 December, 1999	<u>22,053</u>	<u>5,403</u>	<u>27,456</u>
At 31 December, 1998	<u>24,128</u>	<u>7,204</u>	<u>31,332</u>

At 31 December, 1999 there were no capital commitments (1998: nil)

### 10. Investments

	<i>Shares</i> £
<i>Cost</i>	
At 1 January, 1999	–
Additions	19,631
At 31 December, 1999	<u>19,631</u>

The investments relate to:

- (i) shares in subsidiary undertakings amounting to £6; and
- (ii) 25,000 Common shares in SmarTire Systems Inc., a company listed on the NASDAQ market, acquired as part consideration for a licence agreement entered into by the Company during the year. The market value as at 31 December, 1999 was £21,328.



## NOTES TO THE ACCOUNTS *continued*

### 11. Subsidiary undertakings

The subsidiary undertakings are Transense Technology Research Limited, Transense Steering Limited and Piezotec Limited, all of which are wholly owned by the Company and incorporated in England and Wales. These companies were dormant throughout the year.

### 12. Stock and work-in-progress

	1999	1998
	£	£
Work-in-progress	-	2,021

### 13. Debtors

	1999	1998
	£	£
Due within one year:		
Trade debtors	13,164	34,065
Other debtors	39,485	31,611
Prepayments	1,131	4,209
	53,780	69,885

Other debtors includes an amount of £21,274 in respect of unpaid share capital as at the balance sheet date.

### 14. Short term loan

The short term loan, together with interest thereon, was repaid in full on 28 November, 1999

### 15. Share capital

	1999	1998
	£	£
<i>Authorised</i>		
10,000,000 Ordinary shares of 1p each	-	100,000
25,000,000 Ordinary shares of 10p each	2,500,000	-

On 29 November, 1999 the authorised share capital of the Company was increased from £100,000 to £2,500,000 by the creation of 240,000,000 additional ordinary shares of 1p each. At the same time a bonus issue of 9 ordinary shares of 1p were allotted in respect of each existing issued ordinary share of 1p to members on the register as at 25 October, 1999.

The existing issued and unissued ordinary shares of 1p were then consolidated on the basis of one ordinary share of 10p for ten ordinary shares of 1p.

	1999	1998
	£	£
<i>Allotted, called up and fully paid</i>		
10,377,524 Ordinary shares of 10p each (1998: 7,103,719 Ordinary shares of 1p each)	1,037,752	71,038



## NOTES TO THE ACCOUNTS *continued*

### 15. Share capital – *continued*

During the year the Company issued the following shares:

(a) *Exercise of share options:*

300,844 ordinary 1p shares at 23p per share  
 40,000 ordinary 1p shares at 23p per share  
 50,000 ordinary 1p shares at 46p per share

(b) *Other share issues to strengthen the capital base of the Company:*

February                    90,000 ordinary 1p shares at 60p each  
 April                        68,335 ordinary 1p shares at 60p each  
 June                         196,765 ordinary 1p shares at 60p each  
 July                         215,000 ordinary 1p shares at 70p each  
 September                38,461 ordinary 1p shares at 65p each  
 December                2,024,400 ordinary 10p shares at 100p each

(c) *Other share issues as a result of a Licence Agreement*

December                250,000 ordinary 10p shares at 47.85p each

The options on shares which remain outstanding at 31 December, 1999 are detailed in the Report of the Directors.

Since the year end the Company has issued the following shares as a result of the exercise of share options:

500,000 ordinary 10p shares at 23p each  
 30,000 ordinary 10p shares at 25p each  
 100,000 ordinary 10p shares at 50p each  
 100,000 ordinary 10p shares at 66.5p each  
 23,396 ordinary 10p shares at 80p each

### 16. Reserves

	<i>Share premium account</i>	<i>Other capital account</i>	<i>Profit &amp; loss account</i>	<i>Total</i>
	£	£	£	£
<i>Equity Interest</i>				
At 1 January	1,058,305	5,000	(764,630)	298,675
Capitalisation issue	(729,281)	–	–	(729,281)
Issue of Shares	2,158,046	–	–	2,158,046
Loss for the year	–	–	(683,998)	(683,998)
At 31 December	2,487,070	5,000	(1,448,628)	1,043,442

### 17. Loss per Share

*Basic*

The calculation of basic loss per share is based on the loss after taxation of £683,998 (1998: £259,746) and on 7,757,465 ordinary shares being the weighted average number of shares in issue during the year (1998: 7,103,719).

*Diluted*

The calculation of diluted loss per share is based on the loss after taxation of £683,998 (1998: £259,746) and on 10,495,037 (1998: 7,845,831) shares. The number of shares is based upon the weighted average number of shares in issue during the year together with 2,737,572 (1998: 742,112) shares deemed to have been issued at nil consideration pursuant to options outstanding.



## NOTES TO THE ACCOUNTS *continued*

### 18. Reconciliation of Movement in Shareholders' Funds

	1999	1998
	£	£
<i>Equity Interest</i>		
Opening Shareholders' Funds	369,713	629,459
Issue of Shares – par	237,433	–
Issue of Shares – share premium	2,158,046	–
Loss for year	(683,998)	(259,746)
Closing Shareholders' Funds	<u>2,081,194</u>	<u>369,713</u>

### 19. Transactions with Directors

The Company has received invoices from Sensor Technology Limited (“Sensor”), a company in which A Lonsdale and B Lonsdale are directors and shareholders, in the sum of £81,178 (1998: £147,265) in respect of research and development work undertaken. Conversely the Company raised invoices to Sensor in the sum of £21,475 (1998: £33,369) in respect of hire of equipment. At 31 December, 1999 the sum due to Sensor by the Company amounted to £22,012 (1998: £42,358).

The Company has also received invoices from Evesco Limited, a company in which G D Eves is a director and substantial shareholder, in the sum of £13,911 in respect of expenses incurred. At 31 December, 1999 there were no outstanding balances.

All transactions with directors were on an arms' length basis.

### 20. 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 company's financial instruments comprise cash on floating rate deposit (£1,927,733) and a fixed asset investment of 25,000 Common shares in SmarTire Systems Inc. (cost £19,625, market value £21,328).

Short term debtors and creditors are not treated as financial assets and liabilities respectively for the purposes of FRS13 disclosures.



## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 77 Cherwell Innovation Centre, Upper Heyford, Bicester, Oxon OX6 3HD on Friday 16 June, 2000 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, 1999.
2. To re-elect as a director H G Pearl who retires in accordance with the Company's articles of association.
3. To re-elect as a director A B Baldry who retires in accordance with the Company's articles of association.
4. To re-elect as a director J A H Perry who retires by rotation and offers himself for re-election.
5. To re-elect as a director J F George who retires by rotation and offers himself for re-election.
6. To re-appoint BDO Stoy Hayward as auditors and to authorise the directors to fix their remuneration.
7. 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 £1,349,868.40 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

8. In substitution for all existing and unexercised authorities and subject to the passing of Resolution 7 above, the directors be and they are hereby generally authorised and empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act), pursuant to the authority conferred by Resolution 7 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 depository receipts, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and
  - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal value of £57,506.58 (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 securities of the Company to be allotted after such expiry and the directors may allot equity securities pursuant to 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

*Watlington Securities Ltd.*

22 March, 2000

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 22 March, 2000 until the conclusion of the Annual General Meeting and (ii) at 77 Cherwell Innovation Centre, Heyford Park, Upper Heyford, Bicester, Oxon OX6 3HD on 16 June, 2000.
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 am on 14 June, 2000 (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.