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Transense Technologies plc



**Report and Accounts
For the Year Ended
31 December, 2001**

DIRECTORS AND ADVISERS

Directors	<p>*Sir N D Cadbury (<i>Chairman</i>) J A H Perry (<i>Chief Executive</i>) *A B Baldry S C Clarke (<i>Legal</i>) (<i>appointed 22 March, 2002</i>) G D Eves (<i>Commercial</i>) A Lonsdale (<i>Technology</i>) H G Pearl (<i>Finance</i>) *P J Woods *Non-executive</p>
Secretaries and Registered Office	<p>Watlington Securities Limited 36 Elder Street London E1 6BT</p>
Auditors	<p>BDO Stoy Hayward Northside House 69 Tweedy Road Bromley Kent BR1 3WA</p>
Bankers	<p>HSBC Bank plc 1 Sheep Street Bicester Oxon OX6 7JA</p>
Nominated Advisers and Brokers	<p>HSBC Investment Bank plc Vintners Place 68 Upper Thames Street London EC4V 3BJ</p>
Registrars	<p>Capita IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ</p>
Registration Number	<p>1885075</p>

CHAIRMAN'S STATEMENT

Your company has made good progress during 2001 towards achieving its goal of developing its sensor technology to be the leading product in its application to Tyre Pressure Monitoring (TPM). Success has also been achieved with the signing of a licence agreement with TT Electronics for the application of our technology to Electric Power Steering (EPS).

The market opportunities for licensing Transense Technologies' Intellectual Property (IP) remain highly attractive in terms of size and profitability and we remain confident in the successful outcome of our current research and development programmes which include TPM, EPS, driveline and gyroscopic positioning systems.

These programmes have involved increased costs during the year causing losses to rise from £450,000 to £884,000. The increase in costs arises from adding to our highly skilled team, who play a crucial part in the development programme and from the doubling of spend on the protection of our IP rights, the key asset of the Company, reflecting licence registration and patent costs.

Our partnership with Michelin and the licence they acquired from us is clear evidence of the importance they place on our approach to TPM and the pre-eminence of our technology. Further evidence was provided in February this year when SmarTire, the first of our TPM licensees, demonstrated our application on their stand at the Tire Technology Expo 2002 exhibition in Hamburg. They announced that their 'Battery-less Solution', developed around Transense IP under licence from us to them, represents a major industry innovation.

As we get nearer to the point where our technology will go into volume production it is imperative that we only license suppliers who have the technology and capacity to meet the large volumes of components needed to satisfy the markets our technology lends itself to. The first such application will be tyre pressure monitoring so the licence agreement announced last week with Honeywell, the largest producer of pressure sensors in the world, was a significant milestone for our Company.

Initially, as announced, Honeywell will concentrate its packaging expertise on the volume production of SAW sensors developed specifically for tyre pressure and temperature monitoring. It is envisaged that the first deliveries of this product will be in the next few months leading up to volume sales in the last quarter of this year. Deliveries of other potential volume products are expected to follow shortly after.

The American TREAD Act calls for new passenger vehicles manufactured from November 2003 to be equipped with TPM systems. The time period for compulsory compliance will not significantly impact our plans as we did not anticipate that Transense's technology would take part in the first or second generation TPM applications employing batteries which are being applied ahead of legislation. We do expect our technology will start to be used in vehicles at the end of this year.

The Company's plans anticipated and allowed for changes in the licensee programme. One such change involved Sawtek, which we had licensed for the supply of SAW devices. Their acquisition by TriQuint Inc resulted in the exclusive licence being cancelled and a non-exclusive arrangement being offered in its place. A parallel development programme taking forward this aspect of the technology has enabled us to source high quality SAW devices for our application licensees. This will lead to a new licence deal.

The cash resources of the Company were strengthened during the year with the placing of authorised shares for £2 million to an institutional shareholder. The Company commences 2002 in a strong cash position, which will allow for the continuing development of its technology without the prospect of further recourse to shareholders.

We have made important management additions during the year with the appointment of Mr Stephen Clarke, who is now Director of Legal Affairs. Stephen Clarke's background, originally with Allen & Overy and later with GEC and TI Group, provides the experience to manage the Company's important and growing legal and licensing workload. Dr Raymond Lohr who was until recently Vice President Research & Development of Instron/Schenk, one of the world's leading automotive test equipment manufacturers, and Visiting Professor of Engineering at Oxford University and Deputy Chairman of High Temperature

CHAIRMAN'S STATEMENT *continued*

Mechanical Testing Committee, will be joining our Company as Technical Director on 1 May. Anthony Lonsdale, who pioneered the technical development of the Transense technology, will remain as a Director.

The salaries needed to attract and retain the high calibre of people needed within Transense are far outside that which the Company could currently afford. The only way we have been able to achieve this to date has been through the issue of share options, which has left insufficient options under our present unauthorised scheme to enable us to offer any worthwhile stake in the future of the Company to new employees. One of the resolutions you will be asked to vote on at the AGM on 24 May will overcome this problem. The acceptance of share options, and the sacrifice of the large salaries that they could earn elsewhere, says a great deal about how those joining the Company view its future.

Under Mr James Perry's leadership Transense Technologies, together with an exceptionally talented team, has the skills and determination to succeed in this highly competitive, but attractive market.

The market for the application of your Company's technology continues to offer exciting opportunities. Good progress has been made in 2001 towards commercial exploitation and I am confident that successful outcomes from the development programmes will be reflected in this year's results.

Sir Dominic Cadbury
Chairman

22 April, 2002

REPORT OF THE DIRECTORS

For the year ended 31 December, 2001

The directors present their annual report and Group audited accounts for the year ended 31 December, 2001.

Business activities, review of the business and future developments

The principal activities of the Company and Group 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 Group'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, 2001 show a loss of £884,000 (2000: loss £450,000). The directors do not recommend the payment of a dividend.

Directors

The present directors are listed on page 1. The directors retiring by rotation are Antony Baldry and Howard Pearl and, being eligible, they offer themselves for re-election.

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

Sir Dominic Cadbury, Chairman, is also Chairman of The Wellcome Trust and The Economist Newspapers, Deputy Chairman of the EMI Group and a director of Misys plc. He was formerly Executive Chairman of Cadbury Schweppes plc.

Antony 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.

Peter Woods OBE is Managing Director of Retainagroup Ltd, an adviser to Mitsui UK PLC. Previously he was Chairman and Chief Executive Officer of Rover Group (Japan) Ltd and Chairman of the European Business Community Council.

Contracts of significance in which the directors had a material interest are disclosed in Note 18.

Substantial shareholdings

At the date of this report, the following substantial shareholdings of 3% or more of the Company's share capital, other than those held by directors, have been notified to the Company:

	<i>Ordinary shares of 10p each</i>	<i>%</i>
Friends Ivory & Sime plc	7,666,573	15.2
B Lonsdale*	2,402,836	4.8
The Equitable Life Assurance Society	1,992,016	3.9
A J Ingham	1,744,436	3.4

* See under directors' interests below

REPORT OF THE DIRECTORS *continued*

Directors' interests

The number of shares in the Company in which the directors who served during the year were deemed to be interested at 1 January and 31 December, 2001, all of which are beneficially held, were as follows:

	<i>Ordinary shares of 10p each</i>	
	<i>31 December 2001</i>	<i>1 January*</i> <i>2001</i>
A B Baldry	91,200	–
Sir N D Cadbury	–	–
G D Eves	364,400	–
A Lonsdale**	2,592,836	2,701,636
H G Pearl***	222,400	40,000
J A H Perry	2,229,252	2,173,652
P J Woods***	8,796	8,796

* After adjusting for a 3 for 1 bonus share issue made in October, 2001.

** Sensor Technology Limited, a company controlled by A & B Lonsdale, had a beneficial interest in 100,000 shares of the Company at 1 January, 2001 but these shares were sold during the year.

*** These directors' shareholdings include shares held by their wives.

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 Sir Dominic Cadbury 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, 2001 the remuneration packages consisted of a basic salary, allowances and certain benefits in kind, including the allowance for a car and health insurance. The Company also made contributions to a pension scheme of 10% of basic salary on behalf of James Perry and Graham Eves.

In February, 2001, following a resolution passed at an EGM, the eligible directors exercised certain share options the net taxable benefit of which is shown in the table below.

(ii) Remuneration

Information on directors' remuneration for the year 2001 is as follows:

	<i>Basic salary</i>	<i>Fees</i>	<i>Benefits</i>	<i>Pension contri- butions</i>	<i>Option exercise income</i>	<i>Total emoluments</i>	
	<i>£</i>					<i>£</i>	<i>£</i>
Executive Directors							
G D Eves	47,250	–	7,784	4,725	3,619,555	3,679,314	57,529
A Lonsdale	8,400	–	606	–	904,889	913,895	8,606
H G Pearl	15,750	–	–	–	1,809,778	1,825,528	15,000
J A H Perry	63,000	–	8,100	6,300	4,524,544	4,601,944	74,600
Non Executive Directors							
A B Baldry	–	10,000	–	–	904,889	914,889	15,000
Sir D Cadbury	–	14,000	–	–	–	14,000	1,667
J F George	–	–	–	–	–	–	10,000
G H Jarrett	–	–	–	–	–	–	14,000
P J Woods	–	10,000	–	–	–	10,000	1,667
Total 2001	<u>134,400</u>	<u>34,000</u>	<u>16,490</u>	<u>11,025</u>	<u>11,763,655</u>	<u>11,959,570</u>	
Total 2000	<u>128,000</u>	<u>42,334</u>	<u>17,235</u>	<u>10,500</u>	<u>–</u>		<u>198,069</u>

REPORT OF THE DIRECTORS *continued*

(iii) Options

Details of options on ordinary shares for each director are as follows:

	<i>At 1 January</i>	<i>Exercised @ 100p per 2001 share in 2001</i>	<i>Adjustment for 3 for 1 Bonus issue</i>	<i>At 31 December 2001</i>	<i>Earliest Exercise Date</i>	<i>Exercise Price per Share</i>
A B Baldry	50,000	(50,000)				
	5,000		15,000	20,000	18.10.03	598.75p
Sir D Cadbury	50,000		150,000	200,000	22.09.03	518.75p
G D Eves	200,000	(200,000)				
	100,000		300,000	400,000	16.03.03	352.5p
	30,000		90,000	120,000	18.10.03	598.75p
A Lonsdale	50,000	(50,000)				
	5,000		15,000	20,000	18.10.03	598.75p
H G Pearl	100,000	(100,000)				
	10,000		30,000	40,000	18.10.03	598.75p
J A H Perry	250,000	(250,000)				
	150,000		450,000	600,000	16.03.03	352.5p
P J Woods	50,000		150,000	200,000	02.10.03	546.875p

Graham Jarrett and John George, both of whom retired as directors on 31 December, 2000 have each retained options already granted to them, being 200,000 at 25p per share exercisable from 26 November, 2002 and 20,000 at 598.75p exercisable from 18 October, 2003.

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

Under an Enterprise Management Incentive Option Agreement (EMI) dated 24 September, 2001 certain directors were granted options on shares at 212.5p per share which must be exercised within the two years from 18 October, 2003. However, options may not be exercised in respect of any number of shares under this scheme unless and until the option holder has formally released the Company from its liability with respect to an equivalent number of shares on the Unapproved Share Option Scheme. Under the Scheme Messrs Eves and Perry have been granted options on 47,056 shares each and Mr Pearl has been granted an option on 40,000 shares.

The mid price of the shares in the Company at 31 December, 2001 was 392.5p and the range during the year was 675p to 212.5p.

(iv) Service contracts

All directors have service contracts which can be terminated with six months' notice in writing by either party, with the exception of James Perry whose contract extends to 29 November, 2002. From 29 May, 2002 this contract can also be terminated with six months' notice in writing by either party. Notwithstanding all contracts awarded to directors automatically terminate when the director reaches the age of 70.

In addition A Lonsdale and B Lonsdale 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%	2.50%
Between £5 – £10 million	0.75%	1.50%
Over £10 million	0.50%	1.00%

In the event of the death of either of the Lonsdales 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, and taking into account the 3 for 1 bonus issue, were:

600,000 ordinary shares at 472.5p each exercisable for two years from 25 April, 2004
240,000 ordinary shares at 498.25p each exercisable for two years from 1 August, 2004

Options granted to other members of staff before 2001, and taking into account the 3 for 1 bonus issue, were:

220,000 ordinary shares at 15p each exercisable for four years from 24 June, 2002
268,000 ordinary shares at 25p each exercisable for two years from 26 November, 2002
100,000 ordinary shares at 62.5p each exercisable for two years from 13 January, 2003
60,000 ordinary shares at 300p each exercisable for two years from 14 March, 2003
388,000 ordinary shares at 352.5p each exercisable for two years from 15 March, 2003
103,600 ordinary shares at 598.75p each exercisable for two years from 18 October, 2003

On 9 February, 2001, following a resolution passed at an EGM, all 15p options and 4,000 of the 25p options held by staff were exercised early.

- (c) Under an Enterprise Management Incentive Option Agreement (EMI) dated 24 September, 2001 employees have been granted options on shares which must be exercised within two years from the date of grant. However, options may not be exercised by non director employees in respect of 428,992 shares under this scheme unless and until the option holder has formally released the Company from its liability with respect to an equivalent number of shares on the Unapproved Share Option Scheme. Under the Scheme 458,992 shares have been granted to non director employees at 212.5p per share on 18 October, 2001 and 28,985 shares at 345p per share on 3 December, 2001.
- (d) In addition to the options granted to the directors and staff as detailed above, the following option on shares remains outstanding as at 31 December, 2001:
- 13,792 ordinary shares at 20p each exercisable until 6 July, 2003

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 the Group and of the results of the Group 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 Group 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 Group 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 Group 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, which is based on the Cadbury, Greenbury and Hampel reports. However the Company has sought to apply those provisions which the directors consider appropriate to the size and nature of the organisation.

The directors did not find it practical, largely because of its size, to embrace fully all 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 provisions, 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.

The directors acknowledge that fully listed companies are now required to report on internal controls in compliance with the Turnbull Report. Despite the fact that the Company is not bound to comply, as it is listed on the Alternative Investment Market, the directors recognise the need to focus on significant risks and related controls, procedures and reports. The directors consider that such matters are dealt with appropriately, bearing in mind the Company's present size and its potential for expansion.

Directors and Directors' remuneration

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.

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

Non-executive directors do not 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 Antony Baldry as senior independent non executive director.

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 Sir Dominic Cadbury. 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 Sir Dominic Cadbury. 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 options 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 earlier in this Report of the Directors.

Relations with Shareholders

The Board welcomes as many shareholders as possible to attend the AGM and encourages discussion 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 Group'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 Group 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 systems currently in place and have considered their 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 abide by these terms. At 31 December, 2001 trade creditors represented 30 days purchases.

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 reappointment will be submitted at the Annual General Meeting.

By Order of the Board
Watlington Securities Ltd
Watlington Securities Limited
Company Secretaries
36 Elder Street
London E1 6BT

22 April, 2002

REPORT OF THE AUDITORS

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, 2001 on pages 11 to 21 which have been prepared under the accounting policies set out on page 16.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group 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 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.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December, 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward
BDO Stoy Hayward

Chartered Accountants & Registered Auditors

Bromley

22 April, 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December, 2001

	<i>Notes</i>	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Turnover	2	191	166
Cost of sales		<u>(6)</u>	<u>(11)</u>
Gross profit		185	155
Administration expenses		<u>(1,216)</u>	<u>(721)</u>
Operating loss (including Long Term Provision no longer required: £nil (2000: £200,000))	5	(1,031)	(566)
Interest receivable and similar income	6	<u>113</u>	<u>116</u>
Loss on ordinary activities before taxation		(918)	(450)
Taxation	7	<u>20</u>	-
Loss on ordinary activities after taxation		(898)	(450)
Minority interest		<u>14</u>	-
Loss on ordinary activities after minority interest		(884)	(450)
Dividends		<u>-</u>	<u>-</u>
Loss for the year	15	(884)	(450)
Loss per share			
Basic	16	(1.8p)	(1.0p)
Diluted	16	(1.7p)	(0.9p)

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.

CONSOLIDATED BALANCE SHEET

as at 31 December, 2001

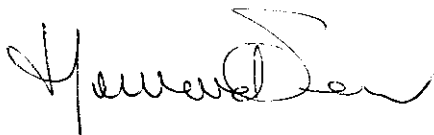
	<i>Notes</i>	<i>2001</i>	<i>2000</i>
		<i>£'000</i>	<i>£'000</i>
Fixed assets			
Intangible Assets	9	1,068	840
Tangible Assets	10	99	82
Investments	11	-	20
		1,167	942
Current assets			
Debtors	13	317	187
Cash at Bank and in Hand		3,177	1,746
		3,494	1,933
Creditors:			
Amounts falling due within one year			
Trade creditors		(48)	(40)
Other taxes and social security costs		(1)	(1)
Accruals		(22)	(104)
Other Creditors		-	(2)
		(71)	(147)
Net current assets		3,423	1,786
Total assets less current liabilities		4,590	2,728
Capital and reserves			
Called up share capital	14	5,046	1,171
Share premium account	15	2,333	3,443
Other capital reserve	15	-	5
Profit and loss account	15	(2,783)	(1,899)
Equity Shareholders' funds	17	4,596	2,720
Minority interest – equity		(6)	8
		4,590	2,728

Approved by the Board on 22 April, 2002

J A H Perry – Director



H G Pearl – Director



COMPANY BALANCE SHEET

as at 31 December, 2001

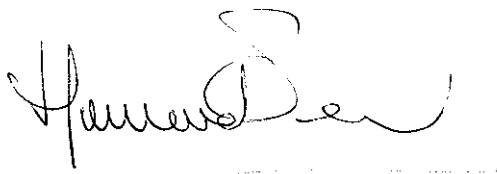
	<i>Notes</i>	2001	2000
		£'000	£'000
Fixed assets			
Intangible Assets	9	1,018	807
Tangible Assets	10	99	82
Investments	11	25	45
		<u>1,142</u>	<u>934</u>
Current assets			
Debtors	13	390	187
Cash at Bank and in Hand		3,177	1,746
		<u>3,567</u>	<u>1,933</u>
Creditors:			
Amounts falling due within one year			
Trade creditors		(48)	(40)
Other taxes and social security costs		(1)	(1)
Accruals		(22)	(104)
Other Creditors		-	(2)
		<u>(71)</u>	<u>(147)</u>
Net current assets		<u>3,496</u>	<u>1,786</u>
Total assets less current liabilities		<u>4,638</u>	<u>2,720</u>
Capital and reserves			
Share capital	14	5,046	1,171
Share premium	15	2,333	3,443
Other capital reserve	15	-	5
Profit and loss account	15	(2,741)	(1,899)
Equity Shareholder's funds		<u>4,638</u>	<u>2,720</u>

Approved by the Board on 22 April, 2002

J A H Perry – *Director*



H G Pearl – *Director*



CONSOLIDATED CASHFLOW STATEMENT

For the year ended 31 December, 2001

	<i>Notes</i>	<i>2001</i>	<i>2000</i>
		<i>£'000</i>	<i>£'000</i>
Net cash outflow from operating activities	A	(1,166)	(1,095)
Returns on investments and servicing of finance			
Interest received		113	116
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(251)	(174)
Payments to acquire tangible fixed assets		(57)	(92)
Sale of tangible fixed assets		32	-
		<u>(276)</u>	<u>(266)</u>
		(1,329)	(1,245)
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(25)
Equity dividends paid		-	-
		<u>(1,329)</u>	<u>(1,270)</u>
Cash outflow before financing		(1,329)	(1,270)
Management of liquid resources			
Payments to short term deposits		(1,410)	(1,720)
Financing			
Issue of new ordinary shares		2,760	1,089
Increase/(decrease) in cash in the year	C	<u>21</u>	<u>(1,901)</u>

NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

For the year ended 31 December, 2001

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

	<i>2001</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>
Operating loss	(1,031)	(566)
Depreciation and amortisation	63	64
(Profit)/loss on disposal of fixed assets	(12)	8
Increase in debtors	(110)	(134)
Decrease in creditors	(76)	(267)
Decrease in provision for liabilities and charges	-	(200)
Net cash outflow from operating activities	(1,166)	(1,095)

B Reconciliation of net cash flow to movement in net funds

	<i>2001</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>
Increase/(decrease) in cash in the year	21	(1,901)
Net funds at 1 January	26	1,927
Net funds at 31 December (Note C)	47	26

C Analysis of changes in net funds during 2001

	<i>At</i>	<i>Cash</i>	<i>At</i>
	<i>1 January</i>	<i>Flows</i>	<i>31 December</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at Bank and in Hand	26	21	47

In addition £3,130,000 of cash (2000: £1,720,000) was held on short term deposit within the FRS1 definition of liquid resources.

NOTES TO THE ACCOUNTS

For the year ended 31 December, 2001

1. Accounting Policies

(a) Accounting Convention

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention. There are no applicable Financial Reporting Standards that the Group has been required to adopt for the first time during the year.

(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) Group accounts and basis of consolidation

The financial statements present information about the Company as an individual undertaking and about its Group. Three of the four subsidiaries have been dormant throughout the period and their assets are considered immaterial. Information about the Company's subsidiaries is contained in Note 12 to the accounts.

The Group accounts are a consolidation of the accounts of the Company and its subsidiary undertakings. The results of subsidiary undertakings acquired are included in the consolidated accounts from the date that control passed.

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.

(e) 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. Expenditure is deferred only to the extent that its recovery can reasonably be regarded as assured. 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.

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.

(f) 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.

(g) Valuation of investments

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

(h) 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.

NOTES TO THE ACCOUNTS *continued*

2. Turnover

Turnover represents the invoiced amount stated net of value added tax, a geographical analysis of which is: United Kingdom £191,000 (2000: £12,000), Rest of Europe £nil (2000: £4,000), and the United States of America £nil (2000: £150,000).

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 15 (2000: 12) made up as follows:

	2001	2000
Management and technical Administration	12 3	9 3
	15	12
	<i>£'000</i>	<i>£'000</i>
Staff costs (for the above employees)		
Wages and salaries	455	327
Social security costs	45	29
Social security costs falling due after more than one year	–	(200)
Pension Contributions	23	16
	523	172

4. Directors' emoluments

The emoluments of the directors of the parent Company were as follows:

	2001 <i>£'000</i>	2000 <i>£'000</i>
Management remuneration	151	146
Fees as non-executive directors	34	42
Pension contributions	11	10
	196	198

There are 2 (2000: 2) directors for whom retirement benefits are accruing under money purchase schemes.

Details of each director's total emoluments and share options are given in the Directors' report on pages 5 to 7.

5. Operating loss

	2001 <i>£'000</i>	2000 <i>£'000</i>
This is stated after (charging)/crediting:		
Depreciation of tangible fixed assets	(40)	(30)
Amortisation of intangible fixed assets	(23)	(34)
Loss on scrapping of tangible fixed assets	–	(8)
Profit on sale of investment and fixed assets	12	–
Directors' emoluments (including contributions to pension schemes)	(196)	(198)
Social security costs falling due after more than one year	–	200
Auditors' remuneration – for audit services (Company £14,000 (2000: £15,000))	(16)	(15)
for non-audit services (all Company charges)	(9)	(18)
Research	(131)	(47)
Government grants received	43	9

Social Security costs falling due after more than one year comprised a provision of £200,000 at 31 December, 1999. The Company has agreed appropriate arrangements with the relevant parties to pass on this liability and therefore the provision was written back to the profit and loss account during 2000.

NOTES TO THE ACCOUNTS *continued*

6. Interest receivable

	2001 £'000	2000 £'000
Bank Interest	113	116

7. Taxation

There is no charge to taxation arising on the results for the year. The Company has approximately £3.1 million (2000: £2.2 million) of tax losses, subject to the agreement of the Inland Revenue, to carry forward against future trading profits. The Group has taken advantage of a Research and Development Tax Credit Scheme and surrendered £84,000 of losses to the Inland Revenue for a cash receipt of £20,000 (2000: £nil).

8. Loss on ordinary activities after taxation

	2001 £'000	2000 £'000
Loss dealt with in the accounts of the Company	842	450

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in these financial statements.

9. Intangible fixed assets

	<i>Patent Rights</i> £'000	<i>Development Costs</i> £'000	<i>Total</i> £'000
<i>(a) Group</i>			
<i>Cost</i>			
At 1 January, 2001	210	681	891
Additions	144	107	251
At 31 December, 2001	354	788	1,142
<i>Amortisation</i>			
At 1 January, 2001	51	–	51
Provided during the year	23	–	23
At 31 December, 2001	74	–	74
<i>Net book value</i>			
At 31 December, 2001	280	788	1,068
At 31 December, 2000	159	681	840

At 31 December, 2001 there were no capital commitments (2000: £nil)

	<i>Patent Rights</i> £'000	<i>Development Costs</i> £'000	<i>Total</i> £'000
<i>(b) Company</i>			
<i>Cost</i>			
At 1 January, 2001	210	648	858
Additions	126	107	233
At 31 December, 2001	336	755	1,091
<i>Amortisation</i>			
At 1 January, 2001	51	–	51
Provided during the year	22	–	22
At 31 December, 2001	73	–	73
<i>Net book value</i>			
At 31 December, 2001	263	755	1,018
At 31 December, 2000	159	648	807

NOTES TO THE ACCOUNTS *continued*

10. Tangible fixed assets

<i>Group and Company</i>	<i>Plant & Equipment £'000</i>	<i>Motor Vehicles £'000</i>	<i>Total £'000</i>
<i>Cost</i>			
At 1 January, 2001	101	33	134
Additions	46	11	57
Disposals	–	(11)	(11)
At 31 December, 2001	147	33	180
<i>Depreciation</i>			
At 1 January, 2001	35	17	52
Charge for the Year	32	8	40
On Disposal	–	(11)	(11)
At 31 December, 2001	67	14	81
<i>Net book value</i>			
At 31 December, 2001	80	19	99
At 31 December, 2000	66	16	82

At 31 December, 2001 there were no capital commitments (2000: £nil)

11. Fixed Asset Investments

<i>Company</i>	<i>Group undertakings £'000</i>	<i>Listed investments £'000</i>	<i>Total £'000</i>
<i>Cost</i>			
At 1 January, 2001	25	20	45
Disposals	–	(20)	(20)
At 31 December, 2001	25	–	25

12. Subsidiary undertakings

The following were subsidiary undertakings at the end of the year:

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Transense Technology Research Limited	England	100%	Dormant
Transense Steering Limited	England	100%	Dormant
Piezotec Limited	England	100%	Dormant
Wheelsure Limited	England	75%	Research & Development

13. Debtors

	<i>Company</i>		<i>Group</i>	
	<i>2001 £'000</i>	<i>2000 £'000</i>	<i>2001 £'000</i>	<i>2000 £'000</i>
Due within one year:				
Trade debtors	260	153	260	153
Other debtors	45	27	45	27
Due from subsidiary undertaking	73	–	–	–
Prepayments and accrued income	12	7	12	7
	390	187	317	187

NOTES TO THE ACCOUNTS *continued*

14. Share capital

<i>(a) Authorised and allotted</i>	2001	2000
	£'000	£'000
<i>Authorised</i>		
70,000,000 ordinary shares of 10p each (2000: 25,000,000)	7,000	2,500
<i>Allotted, called up and fully paid</i>		
50,461,884 ordinary shares of 10p each (2000: 11,709,958)	5,046	1,171

(b) On 4 October, 2001 a Bonus Issue of 3 shares for every 1 held was issued to shareholders, being 37,846,413 shares, the amount of £3,784,641 being funded from Share Premium Account.

(c) All share issues during the year were made before the Bonus Issue identified in Note 14*(b)* above.

In February 706,000 shares were issued resulting from the exercise of share options, being 651,000 at 100p and 55,000 at 60p each.

In February and June 3,361 and 1,030 shares were issued at 1487p and 2427p respectively, both in lieu of cash for contracted financial services.

On 1 October 195,122 shares were issued at 1025p per share in an equity placing.

(d) At 31 December, 2001 the following share options remained outstanding under the Company's Unapproved Share Option Scheme.

<i>Number of Options</i>	<i>Option Price</i>	<i>Date of Grant</i>	<i>Date of Exercise</i>	
			<i>First</i>	<i>Last</i>
13,792	20p	5.7.99	5.7.99	6.7.03
664,000	25p	26.11.99	26.11.02	25.11.04
100,000	62.5p	13.1.00	13.1.03	12.1.05
60,000	300p	14.3.00	14.3.03	13.3.05
1,388,000	352.5p	16.3.00	16.3.03	15.3.05
200,000	518.75p	22.9.00	22.9.03	21.9.05
200,000	546.875p	2.10.00	2.10.03	1.10.05
343,600	598.75p	18.10.00	18.10.03	17.10.05
600,000	472.5p	21.4.01	21.4.04	20.4.06
240,000	498.25p	1.8.01	1.8.04	31.7.06

Under an Enterprise Management Incentive Option Agreement (EMI) dated 24 September, 2001 a further 593,104 share options were granted at 212.5p per share and 28,985 share options at 345p per share. These options may be exercised between 18 October, 2003 and 2 December, 2005. However 563,104 of 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 Unapproved Share Option Scheme.

15. Reserves

	<i>Share premium account £'000</i>	<i>Other capital account £'000</i>	<i>Profit & loss account £'000</i>	<i>Total £'000</i>
<i>Equity Interest</i>				
At 1 January, 2001	3,443	5	(1,899)	1,549
Issue of Shares	2,670	-	-	2,670
3 for 1 Bonus Issue	(3,785)	-	-	(3,785)
Transfer	5	(5)	-	-
Loss for the year	-	-	(884)	(884)
At 31 December, 2001	2,333	-	(2,783)	(450)

NOTES TO THE ACCOUNTS *continued*

16. Loss per Share

Basic

The calculation of basic loss per share is based on the loss after taxation of £884,000 (2000: £450,000) and on 49,563,168 ordinary shares being the weighted average number of shares in issue during the year (2000: 45,621,020).

Diluted

The calculation of diluted loss per share is based on the loss after taxation of £884,000 (2000: £450,000) and on 53,431,545 (2000: 51,414,412) shares. The number of shares is based upon the weighted average number of shares in issue during the year together with 3,868,377 (2000: 5,793,392) shares deemed to have been issued at nil consideration pursuant to options outstanding.

17. Reconciliation of Movement in Shareholders' Funds

	<i>2001</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>
<i>Equity Interest</i>		
Opening Shareholders' Funds	2,720	2,081
Issue of Shares – par	90	133
Issue of Shares – share premium	2,670	956
Loss for year	(884)	(450)
Closing Shareholders' Funds	4,596	2,720

18. Transactions with Directors

During the year the Company has received invoices from Sensor Technology Limited (“Sensor”), a company in which Anthony Lonsdale is a director and shareholder, in the sum of £73,000 (2000: £6,000) in respect of research and development work undertaken. Conversely the Company raised invoices to Sensor in the sum of £35,000 (2000: £9,000) in respect of hire of equipment. At 31 December, 2001 the sum due to Sensor by the Company amounted to £17,000 (2000: £nil).

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

19. 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, 2001 the Company's financial instruments comprised sterling cash of £3,130,000 on fixed rate monthly deposit (2000: £1,720,000), and the weighted average obtained for the year was 5% (2000: 6%).

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 Group that are not denominated in the functional currency of the operations involved.

20. Pensions

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from these of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund (see Note 3).

21. Related party transactions

As disclosed in Note 18 to the financial statements, during the year the Company received invoices from Sensor Technology Limited (“Sensor”), a company in which Anthony Lonsdale, and his brother Bryan Lonsdale, are both directors and shareholders, in the sum of £73,000 (2000: £6,000) in respect of research and development work undertaken. Conversely the Company raised invoices to Sensor in the sum of £35,000 (2000: £9,000) in respect of hire of equipment. At 31 December, 2000, the sum due to Sensor by the Company amounted to £17,000 (2000: £nil). See also page 6 (*iv*) regarding Consultancy Agreements.

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 24 May, 2002 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, 2001.
2. To re-elect as a director A B Baldry who retires by rotation and offers himself for re-election.
3. To re-elect as a director H G Pearl who retires by rotation and offers himself for re-election.
4. To re-appoint BDO Stoy Hayward as auditors and to authorise the directors to fix their remuneration.
5. 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 £1,953,811.60 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

6. In substitution for all existing and unexercised authorities and subject to the passing of Resolution 5 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 5 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 of equity securities for cash up to an aggregate nominal value of £750,000 in connection with an increase of 7,500,000 ordinary shares of 10p each in the maximum number of shares that can be granted under the Unapproved Share Option Scheme; and
 - (c) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal value of £252,309 (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 April, 2002

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 24 April, 2002 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 24 May, 2002.
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 22 May, 2002 (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.