Transense Technologies plc

Report and Accounts
For the Year Ended
31 December, 2004

DIRECTORS AND ADVISERS

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

CHAIRMAN'S STATEMENT

2004 was another excellent year for Transense with our technology base significantly enriched and our routes to commercialisation materially strengthened. This represents a powerful step change for the company and bodes well for our shareholders over the long term.

I am pleased to report that with licence fees, engineering projects support, and a small royalty contribution, our turnover last year rose 115% to £563,000. At the same time our running overheads reduced from £1,432,000 to £1,358,000, with virtually all activities lower than last year. This left us with a reduced loss for the year of £683,000 compared with £1,077,000 in 2003.

We continued to broaden our valuable intellectual property base and now have 20 granted patents (14 last year) along with 35 applications against 21 previously. The costs of these new additions, and maintenance of those already granted, came to £136,000 against £164,000 in 2003.

Our patent coverage now spans all the main constituent parts that make up our tyre pressure monitoring system (TPMS) and torque systems from the surface acoustic wave (SAW) devices and packaging to electronic interrogation and antennas to the application specific integrated circuit (ASIC), which was delivered last November. I am pleased to report that it is already working well and has only a limited number of small changes needed before it can go into full production. Our technicians continue to impress us with their inventiveness and tenacity in making sure that our technology will be protected for many years to come.

The most significant event during 2004 was undoubtedly the signing of a substantial further licence agreement with Honeywell. Apart from a healthy series of up-front payments the credibility and confidence this transaction, with one of the world's largest sensor manufacturers, affords to Transense is very significant. Large automotive manufacturers need to be convinced that, at the end of a long process of proving out the technology, there is an acceptable Tier 1 supplier who can supply it in volumes at the highest automotive quality standard. It is not only the size and reputation of Honeywell but their ability to manufacture and market complete systems that is such a powerful change in support of Transense's technology. Honeywell are now vigorously promoting SAW technology.

As a result of our growing relationship with Honeywell, and the increased confidence emanating from it, the stage is now set for the step change we had been anticipating. I can reveal that from this strengthening we now have programs running with three of the top four car companies in the world, plus a further two major Tier 1 suppliers for powertrain torque applications.

The funded torque driveline demonstration project, which I referred to last year and which is included in the above, has started very well with the initial trial exceeding expectations. We anticipate that a follow on project, to take the application to the next stage, will start shortly.

Our original lead customer for electric power steering systems has been awaiting the availability of the ASIC, but working ASIC meetings have now been arranged for April. Meanwhile two much larger potential customers are also showing a keen interest, one of which has already identified a car platform, which our transducer would suit, which is scheduled for volume supply in model year 2008.

We have now finished our TPMS engineering development program for commercial vehicle applications on behalf of a major licensee and we are advised that a production batch of sensors has been ordered for delivery in 2005. We have also been informed that this same licensee has demonstrated our SAW technology to passenger car manufacturers.

In addition to the above we have now agreed with three of the world's leading car companies to provide, in 2005, demonstration cars and trucks equipped with our tyre pressure technology. Some of these will be made available to the National Highway Traffic Safety Authority (NHTSA). This organisation, charged with implementing the US Federal Tread Act, is requiring fitment of TPMS to all vehicles up to 10,000 lb weight (including passenger cars) starting September 2005. Along with the help of Honeywell and another large US Tier 1 supplier (currently supplying battery TPMS systems), this will open up another channel to commercialise our world beating technology. The ongoing plan is that the demonstration vehicle type will implement Transense's TPMS technology from model year 2007.

CHAIRMAN'S STATEMENT *continued*

Strengthened routes to commercialisation include assisting our licensee Tai-Saw in qualifying at the very highest standard as a supplier in China to Honeywell; particularly important as we were also working with Honeywell on the TPMS sensor for volume production at Honeywell's Intellesense plant in China.

Also, with licensee Temex, we developed the production version of the torque SAW for Honeywell to package. A significant step for the torque sensor was the development of a dedicated adhesive with a North American specialist adhesive manufacturer which fixes the torque SAW in the sensor, and the sensor to the metal component eliminating welding or soldering.

Another route to market will be through our agreement with Stack which is well known in Formula 1 racing circles. The strategy is to introduce our technology in one of the leading race teams during the 2005 racing season. F1 is an extremely hostile environment and will prove an excellent testing platform for SAW sensors, which should help to open the door to leading European car manufacturers.

Transense has, in line with accounting practice, followed a path of writing down, or showing its assets at cost. This is now having the effect of reducing our net assets below 50% of our issued capital – a topic which will be addressed at the AGM. However, in the opinion of your directors, the Company's intangible assets are worth well in excess of their book value. This is borne out by the licence agreements we have already entered into.

You will recall that last year shareholders agreed to our workforce being granted further options to reflect all the effort they have put into the company over the years. We are now asking you to agree to new options being granted to the directors who also have seen the benefit of existing options being eroded over the course of time. The remuneration committee is conscious of the fact that salary levels are low in comparison with like businesses and, based on the performance conditions attached to these new options, we feel that both shareholders and directors will benefit.

We continue to watch the market carefully for strategic partners to strengthen our competence, broaden our product offering, reduce financial risk and improve revenue and profit growth potential.

On behalf of the Board I would like to thank all in the Transense team for their persistence, ingenuity and very hard work over the past year. The market for Transense's intellectual property rights continues to be highly attractive.

Peter Woods
Chairman

21 March, 2005

STATEMENT OF CORPORATE GOVERNANCE

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

A statement of the directors' responsibilities in respect of the financial statements is set out on Page 12. Below is a brief description of the role of the Board and its Committees.

The Board

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

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

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

Audit and Risk Committee

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

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

Nomination Committee

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

Remuneration Committee

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

The report of the Remuneration Committee is set out on Pages 6 to 9 below.

Accountability, Internal Control and Risk Management

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

Going Concern

After making enquiries the directors have formed a judgement at the time of approving these accounts, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal Financial Control

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

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

REMUNERATION REPORT

Remuneration Policy

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

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

The Remuneration Committee has been able to grant options over ordinary shares under the Company's Unapproved Discretionary Share Option Scheme (UDSOS) which has now expired, and they can also grant options under the Company's Enterprise Mangement Incentive Option Agreement (EMI). These schemes potentially offer long term incentives to directors and key personnel.

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

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

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

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

Base Salary and Benefits

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

In addition to base salary certain executive directors are entitled to the following benefits:

- 25 days holiday per annum: all directors
- Cash allowance in lieu of a Company car: Messrs Eves, Lohr and Perry
- Permanent Health insurance: Messrs Eves, Lohr and Perry
- Private medical cover for themselves, their spouse and minor children where relevant: Messrs Eves, Lohr, Lonsdale and Perry
- Life assurance based on three times basic annual salary: Messrs Eves, Lohr, Lonsdale and Perry

Executive Share Option Schemes

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

Directors' Pension Policy

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

Service contracts

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

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

In addition A Lonsdale and B Lonsdale entered into various agreements with the Company under which they will each be entitled to commission on direct sales and royalties from sub-licences that relate to torque measurement at the following rates:

Annual turnover	*Sales Commission*	*Royalties Commission*
Up to £5 million	1¼%	2½%
Between £5-£10 million	¾%	1½%
Over £10 million	½%	1%

Directors' Emoluments

Information on directors' emoluments is as follows:

	Basic salary £	*Fees* £	*Benefits* £	*Pension contri-butions* £	*Total emoluments 2004* £	*Total emoluments 2003* £
Executive Directors						
S C Clarke	–	–	–	–	–	14,827
G D Eves	51,100	–	6,000	5,110	62,210	62,309
R D Lohr	56,500	–	6,400	5,650	68,550	62,598
A Lonsdale	8,800	–	907	–	9,707	9,441
H G Pearl	26,400	–	–	–	26,400	25,700
J A H Perry	68,000	–	9,196	6,800	83,996	81,900
Non-Executive Directors						
A B Baldry	–	11,000	–	–	11,000	10,000
Sir N D Cadbury	–	–	–	–	–	5,834
J Pither	–	11,000	–	–	11,000	8,333
P J Woods	–	17,000	–	–	17,000	12,333
Total 2004	210,800	39,000	22,503	17,560	289,863	
Total 2003	215,115	36,500	23,598	18,062		293,275

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

Directors' interests in the UDSOS are:

	At 1 Jan 2004	*At 31 Dec 2004*	*Earliest Exercise Date*	*Exercise Price per Share*
A B Baldry	20,000	20,000	18.10.03	$598\frac{3}{4}$p
G D Eves	400,000	400,000	16.03.03	$352\frac{1}{2}$p
	120,000	120,000	18.10.03	$598\frac{3}{4}$p
R D Lohr	100,000	100,000	09.01.06	52p
A Lonsdale	20,000	20,000	18.10.03	$598\frac{3}{4}$p
H G Pearl	40,000	40,000	18.10.03	$598\frac{3}{4}$p
J A H Perry	600,000	600,000	16.03.03	$352\frac{1}{2}$p
J Pither	50,000	50,000	01.03.06	26p
P J Woods	200,000	200,000	02.10.03	$546\frac{7}{8}$p

Under the Company's EMI dated 24 September, 2001 certain directors were granted options over shares at an exercise price of $212\frac{1}{2}$p per share which must be exercised within 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 UDSOS. Under the EMI Messrs Eves and Perry have been granted options over 47,056 shares each and Mr Pearl has been granted an option over 40,000 shares.

Mr Lohr has also been granted options over 48,780 shares at an exercise price of 205p each under the EMI which must be exercised within two years from 1 May, 2005. In this case there is no requirement on Mr Lohr to release the Company from its liability with respect to any options granted under the UDSOS.

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

The UDSOS expired in November 2004. Provided Resolutions 6 and 7 are passed by shareholders at the forthcoming Annual General Meeting, the directors will be eligible to participate in the new 2005 UDSOS and the new 2005 EMI plan. Non-executive directors will not be eligible to participate in the new 2005 EMI plan.

Share price and performance graph

The share price and performance graph is disclosed in the Directors' Report on pages 11 and 12.

On behalf of the Board

P J Woods
Chairman, Remuneration Committee 21 March, 2005

REPORT OF THE DIRECTORS

For the year ended 31 December, 2004

The directors present their annual report and audited accounts for the year ended 31 December, 2004.

Business activities, review of the business and future developments.

The principal activities of the Company during the year were the continuing development of non contact sensors for tyre pressure monitoring and the development of tyre pressure interrogation systems as well as torque transducer sensors to enable electric power assisted steering 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 and 3.

Results and Dividends

The results for the year ended 31 December 2004 show a loss of £683,000 (2003: loss £1,077,000). The directors do not recommend the payment of a dividend (2003: £nil).

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 Group's non-executive directors is as follows:

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

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

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

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

Substantial shareholdings

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

	Ordinary shares Of 10p each	*%*
Active Capital Trust*	4,479,468	8.3
B Lonsdale	2,150,836	4.0
The Throgmorton Trust PLC	1,612,821	3.0

*This holding is part of a total of 7,838,549 ordinary shares (representing 14.6% of the issued share capital) held by F&C Asset Management plc through client holdings.

Directors' interests

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

	Ordinary shares of 10p each	
	31 December 2004	*1 January 2004*
A B Baldry*	91,200	91,200
G D Eves*	364,400	364,400
R D Lohr	–	–
A Lonsdale†	2,572,836	2,592,836
H G Pearl*	222,400	222,400
J A H Perry*†	1,955,892	2,229,252
J Pither	–	–
P J Woods*	8,796	8,796

*These directors' shareholdings include shares held by their wives.
†During 2004 A Lonsdale transferred 20,000 shares to charity and J A H Perry transferred 273,360 shares to his adult children.

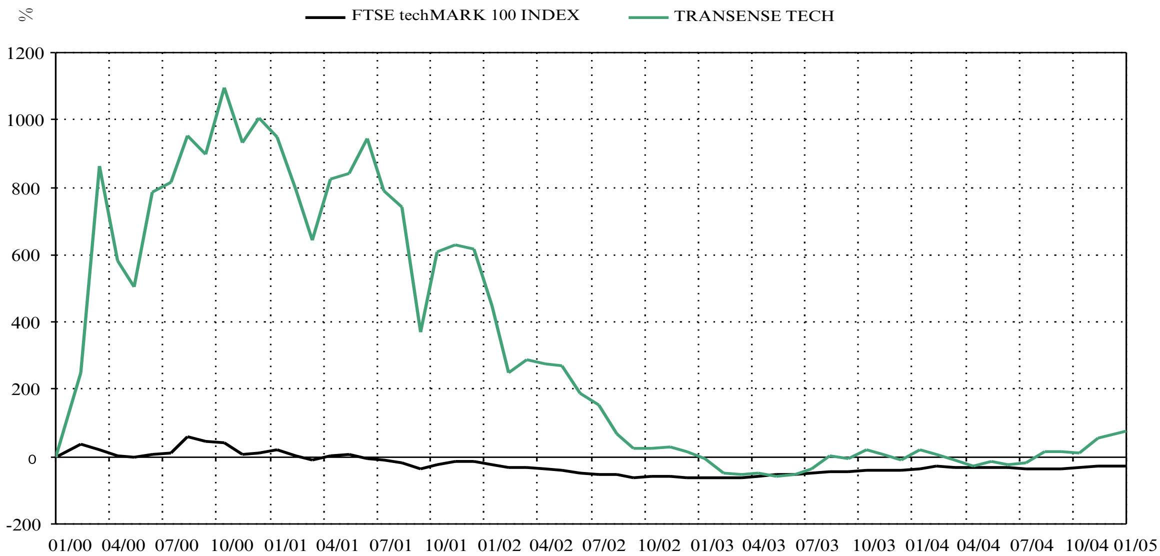
There have been no changes in the above shareholdings between 31 December, 2004 and 21 March, 2005.

Share price

The mid price of the shares in the Company at 31 December, 2004 was 89½p and the range during the year was 92¼p to 35½p.

Performance graph

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



This graph shows the Company's share price from flotation in November 1999 to the end of 2004 in percentage terms, adjusted for the 3 for 1 scrip issue in October 2001. The adjusted flotation price was 25p per share and the price at 31 December 2004 was 89$^{1}/_{2}$p per share.

Share Option Schemes

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

The directors are seeking authority to grant options under the new 2005 UDSOS in respect of up to 1,750,000 ordinary shares (subject to any adjustment in accordance with the relevant scheme rules). Options granted to executive directors under the Scheme initially will (save where provided in the Scheme rules in the case of early exercise or on change of control) be subject to an exercise condition that the market price of an ordinary share must be at least twice that as at the date of grant. The directors are also seeking authority to grant options over ordinary shares under a new 2005 EMI plan. Such options will be granted on terms that participants must waive any existing EMI options previously granted.

Details of options granted to directors are disclosed in the Remuneration Report on pages 8 and 9.

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for 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.

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, 2004 trade creditors represented under 45 days purchases.

Auditors

BDO Stoy Hayward LLP 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 Limited
Company Secretaries
36 Elder Street
London E1 6BT

21 March, 2005

REPORT OF THE INDEPENDENT AUDITORS

Independent Auditors' Report to the Shareholders of Transense Technologies plc

We have audited the financial statements of Transense Technologies plc for the year ended 31 December, 2004 on pages 15 to 25 which have been prepared under the accounting policies set out on pages 19 and 20.

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 statement 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 Company is not disclosed.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December, 2004 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Registered Auditors
Chartered Accountants

Bromley
Kent BR1 3WA

21 March, 2005

PROFIT AND LOSS ACCOUNT

For the year ended 31 December, 2004

	Notes	***2004*** ***£'000***	*2003* *£'000*
Turnover	2	563	262
Cost of sales		(42)	(45)
Gross profit		521	217
Administration expenses		(1,358)	(1,432)
Operating loss	5	(837)	(1,215)
Interest receivable and similar income	6	54	56
Loss on ordinary activities before taxation		(783)	(1,159)
Taxation	7	100	82
Loss on ordinary activities after taxation		(683)	(1,077)
Dividends		–	–
Loss for the year	14	(683)	(1,077)
Loss per share	15	(1.3p)	(2.1p)

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

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

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

BALANCE SHEET

as at 31 December, 2004

	Notes	£'000	2004 £'000	£'000	2003 £'000
Fixed assets					
Intangible Assets	8		1,507		1,407
Tangible Assets	9		47		60
Investments	10		25		25
			1,579		1,492
Current assets					
Debtors	12	590		141	
Cash at Bank and in Hand		1,161		2,071	
		1,751		2,212	
Creditors:					
Amounts falling due within one year					
Trade creditors		(141)		(51)	
Other taxes and social security costs		(20)		(19)	
Accruals		(81)		(42)	
		(242)		(112)	
Net current assets			1,509		2,100
Total assets less current liabilities			3,088		3,592
Capital and reserves					
Share capital	13		5,376		5,319
Share premium	14		3,473		3,351
Profit and loss account	14		(5,761)		(5,078)
Equity Shareholders' funds	16		3,088		3,592

Approved by the Board on 21 March, 2005

J A H Perry – *Director*

H G Pearl – *Director*

CASHFLOW STATEMENT

For the year ended 31 December, 2004

	Notes	£'000	2004 £'000	£'000	2003 £'000
Net cash outflow from operating activities	A		(1,079)		(1,128)
Returns on investments and servicing of finance					
Interest received			54		56
Taxation					
Corporation tax received			100		134
Capital expenditure and financial investment					
Payments to acquire intangible fixed assets		(144)		(220)	
Payments to acquire tangible fixed assets		(20)		(3)	
Sale of tangible fixed assets		–		1	
			(164)		(222)
			(1,089)		(1,160)
Acquisitions and disposals			–		–
Equity dividends paid			–		–
Cash outflow before management of liquid resources and financing			(1,089)		(1,160)
Management of liquid resources					
Receipts from/(payments to) short term deposits		850		(250)	
Proceeds from sale of current asset investment		–	850	91	(159)
Financing					
Issue of new ordinary shares			179		1,291
Decrease in cash in the year	C		(60)		(28)

NOTES TO THE CASHFLOW STATEMENT

For the year ended 31 December, 2004

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

	2004	*2003*
	£'000	*£'000*
Operating loss	(837)	(1,215)
Depreciation and amortisation	77	132
Profits on disposal of fixed asset and current asset investment	–	(41)
(Increase)/decrease in debtors	(449)	59
Increase/(decrease) in creditors	130	(63)
Net cash outflow from operating activities	(1,079)	(1,128)

B Reconciliation of net cash flow to movement in net funds

	2004	*2003*
	£'000	*£'000*
Decrease in cash in the year	(60)	(28)
(Increase)/decrease in cash flow from liquid resources	(850)	159
Change in net funds resulting from cash flows	(910)	131
Gain on sale of current asset investment	–	40
Movement in net funds in the year	(910)	171
Net funds at 1 January	2,071	1,900
Net funds at 31 December (Note C)	1,161	2,071

C Analysis of net funds

	Liquid resources £'000	***Cash £'000***	***Total £'000***
At 1 January	1,950	121	2,071
Cash flow	(850)	(60)	(910)
At 31 December	1,100	61	1,161

NOTES TO THE ACCOUNTS

For the year ended 31 December, 2004

1. Accounting Policies

(a) Accounting Convention

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

(b) Turnover

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

(c) Depreciation

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

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

(d) Deferred Taxation

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

Deferred tax balances are not discounted.

(e) Group accounts and basis of consolidation

The financial statements present information about the Company as an individual undertaking. The three subsidiaries existing at 1 January 2004 have been dormant throughout the period and their assets are considered immaterial. Information about the Company's subsidiaries is contained in Note 11 to the accounts.

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

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

(f) Research and Development

Expenditure on research is expensed as incurred.

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

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

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

(g) Patent Fees

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

(h) Valuation of investments

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

(i) Pension Costs

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

(j) Foreign Currency

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

(k) Operating Leases

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

(l) Liquid Resources

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

2. Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales, a geographical analysis of which is: United Kingdom £1,000 (2003: £154,000), Rest of Europe £7,000 (2003: £3,000), the United States of America £555,000 (2003: £100,000) and the Rest of the World £nil (2003: £5,000).

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 21 (2003: 22) made up as follows:

	2004	*2003*
Management and technical	17	17
Administration	4	5
	21	22
	£'000	*£'000*
Staff costs (for the above employees)		
Wages and salaries	678	664
Social security costs	75	71
Pension Contributions	39	38
	792	773

4. Directors' emoluments

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

	2004 £'000	*2003 £'000*
Management remuneration	233	239
Fees as non-executive directors	39	36
Pension contributions	18	18
	290	293

(b) Emoluments of highest paid director:

	2004 **£'000**	*2003* *£'000*
Emoluments	77	75
Amounts paid into the Company's defined contribution pension scheme	7	7

There are 3 (2003: 3) 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 Remuneration Report on pages 6 to 9.

5. Operating loss

	2004 **£'000**	*2003* *£'000*
This is stated after (charging)/crediting:		
Amortisation of intangible fixed assets	(44)	(82)
Depreciation of tangible fixed assets	(33)	(50)
Profit on sale of investment and fixed assets	–	41
Directors' emoluments (including contributions to pension schemes)	(290)	(293)
Auditors' remuneration – for audit services	(23)	(17)
for non-audit services	(11)	(16)
Research	–	(150)
Government grants received	–	66
(Provision for)/recovery of bad debts	(30)	90

6. Interest receivable

	2004 **£'000**	*2003* *£'000*
Bank Interest	54	56

7. Taxation on loss on ordinary activities

	2004 **£'000**	*2003* *£'000*
Current tax		
Adjustment in respect of previous periods	100	82

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

	2004 **£'000**	*2003* *£'000*
Loss on ordinary activities before tax	783	1,159
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002: 30%)	235	348
Effects of:		
Expenses not deductible for tax purposes	(7)	(27)
Capital allowances for period less than depreciation	–	8
Tax losses to carry forward	(228)	(368)
Profit on sale of investments	–	12
Movement on provision for bad debt	–	27
Research and development credit	100	82
Current tax credit for period	100	82

Factors that may affect future tax charges
The company has tax losses, subject to agreement by HM Inspector of Taxes, in the sum of £4.8 million (2003: £4.5 million), which are available for offset against future profits of the same trade.

8. Intangible fixed assets

	Patent Rights £'000	*Development Costs £'000*	*Total £'000*
Cost			
At 1 January, 2004	683	909	1,592
Additions	136	8	144
At 31 December, 2004	819	917	1,736
Amortisation			
At 1 January, 2004	185	–	185
Charge for the year	44	–	44
At 31 December, 2004	229	–	229
Net book value			
At 31 December, 2004	590	917	1,507
At 31 December, 2003	498	909	1,407

9. Tangible fixed assets

	Plant & Equipment £'000	*Motor Vehicles £'000*	*Total £'000*
Cost			
At 1 January, 2004	212	27	239
Additions	20	–	20
Disposals	–	–	–
At 31 December, 2004	232	27	259
Depreciation			
At 1 January, 2004	156	23	179
On disposals	–	–	–
Charge for the year	30	3	33
At 31 December, 2004	186	26	212
Net book value			
At 31 December, 2004	46	1	47
At 31 December, 2003	56	4	60

At 31 December, 2004 there were no capital commitments (2003: £nil)

10. Fixed Asset Investment – Wheelsure Holdings plc

		Total £'000
(a)	*Cost*	
	At 1 January and 31 December, 2004	25

(b) In the opinion of the directors, the market value of the Company's investment in Wheelsure Holdings plc, if based on the latest available matched bargain prices obtained up to 31 December 2004, would give the investment a value of £315,000, which is in excess of the cost shown in the financial statements. However, as that Company has no official Stock Exchange listing, no current valuation is available.

11. Subsidiary undertakings

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

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

12. Debtors

	2004 ***£'000***	*2003* *£'000*
Due within one year:		
Trade debtors	537	96
Other debtors	26	19
Prepayments and accrued income	27	26
	590	141

13. Share capital

	2004 ***£'000***	*2003* *£'000*
(a) Authorised		
70,000,000 ordinary shares of 10p each (2003: 70,000,000)	7,000	7,000
Allotted, called up and issued		
53,758,974 ordinary shares of 10p each (2003: 53,194,974)	5,376	5,319

(b) During 2004, 564,000 shares were issued resulting from the exercise of share options as follows: 200,000 at 25p per share on 10 September, 264,000 at 25p per share on 17 November and 100,000 at 62½p per share on 3 December.

(c) At 31 December, 2004 the following share options remained outstanding under the Company's Unapproved Discretionary Share Option Scheme (UDSOS).

Number of Options	*Option Price*	*Date of Grant*	*Date of Exercise First*	*Date of Exercise Last*
1,080,000	352½p	16.3.00	16.3.03	15.3.05
200,000	518¾p	22.9.00	22.9.03	21.9.05
200,000	546⅞p	2.10.00	2.10.03	1.10.05
258,000	598¾p	18.10.00	18.10.03	17.10.05
600,000	472½p	21.4.01	21.4.04	20.4.06
100,000	52p	9.1.03	9.1.06	8.1.08
50,000	26p	1.3.03	1.3.06	29.2.08

At 31 December, 2004 two previous directors have retained options on shares already granted to them, each having 20,000 at 598¾p exercisable from 18 October, 2003. These outstanding options are included in the table above.

(d) Under an Enterprise Management Incentive Option Agreement (EMI) dated 24 September, 2001 a further 563,104 share options were granted at 212½p per share on 18 October, 2001. However, these options can only be exercised when the option holder has formally released the Company from its liability with respect to an equivalent number of shares in the UDSOS. At 31 December, 2004 228,224 of these options remain.

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

Number of Options	*Option Price*	*Date of Grant*	*Date of Exercise First*	*Date of Exercise Last*
48,780	205p	1.5.02	1.5.05	30.4.07
25,000	21½p	6.3.03	6.3.06	5.3.08
10,000	23p	29.5.03	29.5.06	28.5.08
206,250	48p	1.4.04	1.4.07	31.3.09
771,792	50p	25.5.04	25.5.07	24.5.09
35,000	50p	3.12.04	3.12.07	2.12.09

14. Reserves

	Share premium account £'000	*Profit & loss account £'000*
At 1 January, 2004	**3,351**	**(5,078)**
Issue of Shares	**122**	**–**
Loss for the year	**–**	**(683)**
At 31 December, 2004	**3,473**	**(5,761)**

15. Loss per Share

The calculation of basic loss per share is based on the loss after taxation of £683,000 (2003: £1,077,000) and on 53,437,097 ordinary shares being the weighted average number of shares in issue during the year (2003: 51,529,381).

The Company incurred a loss for the years 2004 and 2003 and, given the circumstances, a calculation in respect of the diluted loss per share is not considered relevant.

16. Reconciliation of Movement in Shareholders' Funds

	2004 £'000	*2003 £'000*
Equity Interest		
Opening Shareholders' Funds	**3,592**	3,428
Issue of Shares – par	**57**	253
Issue of Shares – share premium	**122**	988
Loss for year	**(683)**	(1,077)
Closing Shareholders' Funds	**3,088**	3,592

17. 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 £nil (2003: £135,000) in respect of research and development work undertaken. Conversely the Company raised invoices to Sensor in the sum of £1,000 (2003: £109,000).

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

18. Financial Instruments

(a) 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, 2004 the Company's financial instruments comprised sterling cash of £1,100,000 on fixed rate monthly deposit (2003: £1,950,000), and the weighted average obtained for the year was 3¾% (2003: 3⅖%).

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

(b) The Company has an undrawn committed bank borrowing facility for £1 million which is secured by an equivalent cash deposit.

19. 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 (Note 3).

20. Commitments under Operating Leases

As at 31 December, 2004, the Company had annual commitments under non-cancellable operating leases as set out below:

	2004 Land and Buildings £'000	***2004 Other £'000***	*2003 Land and Buildings £'000*	*2003 Other £'000*
Operating leases which expire in less than one year	36	–	–	–
Operating leases which expire in one to two years	–	–	36	–

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at North Oxfordshire Consortium, Building 52, Heyford Park, Upper Heyford, Bicester, Oxon OX25 5HD on 20 May, 2005 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, 2004.
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 receive and adopt the remuneration report contained within the annual report for the year ended 31 December, 2004.
5. To re-appoint BDO Stoy Hayward LLP as auditors and to authorise the directors to fix their remuneration.
6. To approve the Transense Technologies plc 2005 Enterprise Management Incentive Share Option Plan (the 2005 EMI Plan) the principal terms of which are summarised in the appendix to this notice provided that the maximum number of ordinary shares in the Company over which options can be granted under the 2005 EMI Plan is 400,000 ordinary shares (subject to any adjustment in accordance with the plan rules).
7. To approve the Transense Technologies plc 2005 Unapproved Discretionary Share Option Scheme (the 2005 UDSOS) the principal terms of which are summarised in the appendix to this notice provided that the maximum number of ordinary shares in the Company over which options can be granted under the 2005 UDSOS is 1,750,000 ordinary shares (subject to any adjustment in accordance with the scheme rules).
8. 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 £1,624,102.60 to such persons, at such times and generally on such terms as the directors may determine provided that:

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

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

SPECIAL RESOLUTION

9. In substitution for all existing and unexercised authorities and subject to the passing of Resolution 8 above, the directors be and they are hereby generally authorised and empowered pursuant to Section 95 of the Act to allot relevant securities (as defined in Section 80(2) of the Act), pursuant to the authority conferred by Resolution 8 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;

   (b) the allotment of equity securities up to an aggregate nominal amount of £175,000 under the Transense Technologies plc 2005 Unapproved Discretionary Share Option Scheme; and

   (c) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal value of £268,794 (representing five per cent of the Company's issued ordinary share capital)

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

AS SPECIAL BUSINESS

To recognise that the net assets of the Company as at the date of the Annual General Meeting will be half or less of its called up share capital and to consider whether and if so what steps should be taken to deal with the situation.

By Order of the Board

Watlington Securities Limited
Company Secretaries 21 March, 2005

Registered Office: 36 Elder Street, London E1 6BT

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrars of the Company (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
4. Copies of the directors' service contracts and a statement of the directors' share interests and those of their families will be available for inspection at (i) the Registered Office of the Company during normal business hours on each business day from the date of this notice until the conclusion of the Annual General Meeting and (ii) at North Oxfordshire Consortium, Building 52, Heyford Park, Upper Heyford, Bicester, Oxon OX25 5HD on 20 May, 2005.
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 18 May, 2005 (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.

APPENDIX

PRINCIPAL FEATURES OF THE 2005 ENTERPRISE MANAGEMENT INCENTIVE SHARE OPTION PLAN

The principal features of the 2005 Enterprise Management Incentive Share Option Plan (the "Plan") the terms of which will be set out in detail in the Plan documentation are as follows:

1. Constitution and Regulation

The Plan will be constituted by a series of individual agreements (drafted in similar terms) between the Company and participants (the "EMI Agreements"). Options can only be granted to employees and executive directors who satisfy the working time requirements prescribed by legislation. Options may be granted to such individuals as are selected by the directors acting in their discretion.

2. Grant of Options

The Company may enter into EMI Agreements at any time, save when it is restricted from doing so by regulation or statute.

No payment is required for the grant of an option. Options granted under the Plan are personal to the option holders to whom they are granted and may not be transferred or assigned. However, the legal personal representatives of an option holder who dies before exercising his option may in certain circumstances exercise the option.

3. Option Price

The price for ordinary shares payable on the exercise of an option will be set by the directors prior to the grant of the option at their discretion. It is proposed that the exercise price per share for options granted under the Plan initially will be the higher of £1 and the closing price of an ordinary share on the dealing day prior to the date of grant.

4. Exercise of Options

An option will not normally be exercisable until three years from the date of grant and then generally only if the option holder remains an employee within the group. An option may not be exercised more than five years after the date of grant. It is proposed that, initially, options will only be granted under the Plan if the relevant individuals have first waived any EMI options that they already hold over ordinary shares in the Company. The Board may, prior to the grant of an option under the Plan, impose one or more performance conditions that will determine the extent to which, if at all, the option may be exercised. It is not proposed that any performance conditions will attach to options granted under the Plan initially.

5. Limits on Individual Participation

The aggregate market value of ordinary shares at the date of grant that an individual may hold subject to EMI options granted by the Company cannot exceed the statutory maximum (currently £100,000).

6. Limits on the issue of Ordinary Shares

No more than 400,000 ordinary shares may be placed under option under the Plan. This limit is subject to adjustment as described in paragraph 10 below.

7. Issue or Transfer of Shares on Exercise of Options

Ordinary shares issued or transferred following the exercise of an option will rank pari passu in all respects and form one class with the ordinary shares then in issue, save as regards any rights attaching to such ordinary shares by reference to a record date prior to the date of allotment or transfer. As soon as practicable after allotting ordinary shares on the exercise of an option the Company shall, if still relevant, seek permission for such shares to be admitted to trading on the Alternative Investment Market.

8. Change of Control

In the event of a change of control of the Company, the option holders may, with the agreement of the acquiring company release their options in consideration for the grant to them of new options over shares in the acquiring company.

On the occurrence of certain other changes of control of the Company and other specified corporate events affecting the Company options may be exercised within set periods of time (notwithstanding that such exercise is within three years of the date of grant) at the end of which they will lapse.

9. Cessation of Employment

If an option holder gives or receives notice of termination of his employment, then his option will generally lapse and cease to be exercisable.

The directors may within three months of such cessation in their absolute discretion determine that the option holder's options can be exercised in respect of such number of ordinary shares and within such period as they may determine. In the event that the option holder dies during his employment his personal representatives may exercise his option within one year of the date of death but only to the extent that they were exercisable at the date of death.

10. Adjustments

The number of ordinary shares subject to any option and/or the option price of such options shall (subject to certain conditions) be adjusted by the directors in such manner as is necessary to ensure that the value of the option is not significantly decreased or increased solely in consequence of such variation.

11. Amendments

The Company and the option holder may at any time by deed alter or add to any of the provisions of the EMI Agreement provided that no amendment to the advantage of option holders may be made without the prior approval of shareholders in general meeting to the following provisions:

(a) the times at which and the circumstances in which options may be exercised;

(b) the basis of adjustments to the option price and the number of ordinary shares subject to options;

(c) the basis of calculation of the total number of ordinary shares available for the Plan; and

(d) the rules relating to amendment of the Plan

save in respect of minor amendments to benefit the administration of the Plan, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Company or other members of the Group.

12. Benefits Non-Pensionable

Options and ordinary shares acquired on the exercise of options will not be pensionable.

PRINCIPAL FEATURES OF THE TRANSENSE TECHNOLOGIES PLC 2005 UNAPPROVED DISCRETIONARY SHARE OPTION SCHEME

The principal features of the 2005 Unapproved Share Option Scheme, (the "2005 UDSOS") the terms of which will be set out in detail in its rules, are as follows:

1. Regulation

The 2005 UDSOS will be regulated by the board of the directors of the Company or a duly constituted committee of the board ("the Board"). In practice, the grant of options to executive directors and other employees will be delegated to the Remuneration Committee but the grant of options to non-executive directors will be decided upon by the Board as a whole.

2. Eligible directors and employees

All directors (whether executive or non-executive) and all employees of the Company and its subsidiaries ("the Group") are eligible for selection by the Board to participate in the 2005 UDSOS.

3. Grants of options

The rules of the 2005 UDSOS will permit the Company to grant options to subscribe for unissued ordinary shares (such "ordinary shares" being any ordinary shares from time to time comprised in the share capital of the Company), and to any other person, who has entered into an agreement with the Company to do so, to grant options to purchase issued ordinary shares. The Company may, on exercise of an option granted by it, procure the transfer or issue of ordinary shares in satisfaction of its obligations.

The Board will in its discretion determine which directors and employees are to be granted options and the number of ordinary shares to be comprised in such options.

Options may normally only be granted during each period commencing on the announcement of the Company's results for any period to the London Stock Exchange and ending 42 days later. If the Company, or other grantor, is restricted from granting options during such period options may be granted within 42 days of the lifting of such restrictions. Options may also be granted at any time when the Board resolves that exceptional circumstances exist which justify the grant of an option or options. Options may not be granted more than five years after the 2005 UDSOS has been approved by the Company's shareholders in general meeting.

No payment is required for the grant of an option. Options granted under the Option Scheme will be personal to the participants to whom they are granted and may not be transferred or assigned. However, they may be exercisable by the legal personal representative of a participant who dies before exercising his option.

4. Option price

The price per ordinary share payable on the exercise of an option will be determined by the Board prior to their grant and the price per ordinary share payable on exercise will not be less than the market value of an ordinary share at the date of grant of the option, subject, in the case of options to subscribe for unissued ordinary shares, to a minimum price equal to the nominal value of an ordinary share. Options granted under the 2005 UDSOS initially will be at an exercise price that is not lower than £1 per share.

5. Exercise of options

An option will not normally be exercisable until three years from the date of its grant and then only if the participant remains a director or employee. An option may not be exercised more than five years after the date of its grant.

The Board may prior to its grant impose one or more performance conditions which will determine the extent to which, if at all, the option may be exercised.

If a participant ceases to be a director or employee within the Group, the Board has discretion to permit the participants options to be exercised after such cessation, to such extent and within such period as it thinks fit, notwithstanding that such cessation occurs within three years after the grant of the option. In the absence of the exercise of such discretion, options will lapse immediately the participant ceases to be a director or employee. Early exercise is allowed in the event of an amalgamation, reconstruction or take-over of the Company; alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company. Options may also be exercised early in the event of a voluntary winding-up of the Company.

6. Issue or transfer of shares on exercise of options

Ordinary shares issued or transferred following exercise of an option will rank *pari passu* in all respects and form one class with the ordinary shares then in issue, save as regards dividends payable by reference to a record date prior to the date of allotment or transfer. So long as ordinary shares are dealt in on the Alternative Investment Market at the date the option is exercised the Company shall, within 28 days of exercise, apply for the ordinary shares issued on such exercise to be dealt in on such market.

7. Limits on the issue of ordinary shares

No more than 1,750,000 ordinary shares may be placed under option. If an option lapses without being exercised, the ordinary shares to which it relates will be available for future grants of options within the above limits. These limits are subject to adjustment as described in paragraph 8 below.

8. Adjustments

The number of ordinary shares subject to any option, the option price and the limits described in paragraph 7 above are subject to such adjustment as the Board may consider to be appropriate in the event of any capitalisation issue (other than a scrip dividend which is not an enhanced scrip dividend) or rights issue by the Company or any consolidation, sub-division or reduction of the Company's share capital or any other variation in the Company's share capital, subject (except in the case of a capitalisation issue other than an enhanced scrip dividend) to the auditors confirming in writing that such adjustment is fair and reasonable.

9. Amendments

The Board may make minor amendments to benefit the administration of the 2005 UDSOS to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the 2005 UDSOS or for the Company or other members of the Group.

Save as set out above, no amendment to the advantage of participants may be made, without the prior approval of shareholders in general meeting, to the following provisions of the 2005 UDSOS:

(a) the definition of those eligible to participate;

(b) the times at which and the circumstances in which options may be granted or exercised;

(c) the basis of calculation of the option price;

(d) the basis of adjustments to the option price and the number of ordinary shares subject to options;

(e) the basis of calculation of the total numbers of ordinary shares available for the scheme;

(f) the basis of calculation of the limits on an individual's participation; and

(g) the rules relating to amendment of the scheme.

10. Benefits non-pensionable

Options and ordinary shares acquired on the exercise of options under the scheme will not be pensionable.

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