Transense Technologies plc

Directors' report and financial statements

Registered number 01885075

For the 18 months ended 30 June 2012

Contents

Directors and advisers

Directors

D G Kleeman (Chairman) (1, 2, 3)
G Storey (CEO)
R J Westhead (1, 2, 3)
D M Ford
M Segal (FD) (appointed 11th June 2012)

1 Non-executive
2 Member of the Audit Committee
3 Member of the Remuneration Committee

Secretary and Registered Office

D M Ford
66 Heyford Park
Camp Road
Upper Heyford
Bicester OX25 5HD

Auditors

KPMG Audit Plc
Arlington Business Park
Theale
Reading RG7 4SD

Bankers

HSBC Bank plc
1 Sheep Street
Bicester
Oxon OX26 7JA

Nominated Adviser

N+1 Brewin
12 Smithfield Street
London EC1A 9LA

Brokers

Hybridan LLP
29 Throgmorton Street
London EC2N 2AT

Registrars

Neville Registrars
Neville House
Laurel Lane
Halesowen
B63 3DA

Registration Number 1885075

Chairman's statement

As indicated earlier this year, our year-end date was changed to 30 June 2012. The Directors Report & Financial Statements cover, therefore, the 18 month period to 30 June 2012.

In this 18 month period sales amounted to £1,014,000 split as to £663,000 in the 12 months to 31 December 2011 and £351,000 in the 6 months to 30 June 2012 (6 Months to June 2011 - £249,000). The increased post-tax loss for the 18 months of £3,325,000 compared to the previous period reflects the extra costs of funding the US overhead which has expanded to facilitate the potential new business that is now materialising at our US operation – IntelliSAW, which commenced business more than a year ago and is a provider of wireless sensor systems for smart grid applications.

Despite this trading loss, our business has made substantial progress. Since we last reported in June this year with our interim figures, our iTrack system has received its first significant order – from one of the world's largest mining companies in respect of one of its South African mines. Other mining companies are showing interest in our products, whilst the testing of our systems by potential customers takes time, we anticipate further orders of significance.

IntelliSAW's sales are also showing an encouraging momentum. It has taken the best part of a year since the commencement of its business for IntelliSAW to establish worldwide distribution arrangements within the power generation industry, a feature which much increased the Group's monthly cash outflow. The exercise has been worthwhile and we are now participating in a high growth industry with major potential, particularly in fast growing Third World countries. Quarter on quarter we are seeing real growth in the intake of orders, and requests for quotations.

We have also completed, since we last reported, the raising of £1.76m, before expenses, by means of a Placing. This has enabled us to continue to fund the continued expansion of the business.
All in all, a really meaningful 18 month period of progress, which should enable us to report a record level of sales for Transense for the current 6 month period to 31 December 2012.

D G Kleeman
Chairman

Chief Executive's report

The first six months of 2012 has seen a continuation in the solid progress made during 2011 and it is anticipated that this progress will be reflected in the figures to December 2012, and more so throughout 2013. All key projects have moved forward and our two trading divisions have made significant strides in expanding their sales and partner networks, with IntelliSAW starting pilots at several major industrial sites and Translogik securing its first commercial order from Anglo American.

Transense

General Motors Flexplate

The flexplate project is progressing well and Transense continues to provide close engineering support to the General Motors team. The flexplate is an integral part of the vehicle powertrain control system and has the potential to improve vehicle driveability, reduce fuel consumption and improve transmission shift quality. This will be the first time a propulsion system has been able to measure engine torque 'live', enabling optimal control to be maintained throughout a vehicle's life. Current torque management systems rely on simulated models derived from production engine testing which can differ from the actual engine torque output over time. The new flexplate technology provides continuous real-time torque measurement allowing actual torque measurement on a per-vehicle basis for maximisation of engine efficiency.

McLaren

As part of the Joint Development Agreement (JDA) with McLaren signed in August 2011 and following on from the success of the KERS project, Transense is now manufacturing torque sensor shafts for Indycar. The shafts are fitted with Surface Acoustic Wave (SAW) torque sensors by Transense and extensively tested and calibrated for use within the harsh motorsport environment. The shafts are then supplied to McLaren for integration with the sensor interrogation electronics and shipment to the customer. Modifications to the Indycar shaft for sensor compatibility, the SAW torque sensor and the interrogation electronics all contain Transense patented intellectual property.

Work on various other applications of Transense's SAW technology for measuring torque, temperature and pressure, such as IntelWind, continues to progress towards commercialisation.

IntelliSAW

IntelliSAW has continued to see strong demand for its innovative wireless/passive temperature monitoring solutions. This has resulted in the recent commissioning of three new pilot installations of its IS485 electrical switchgear monitoring systems with major industrial companies.

The pilot systems were installed at sites owned by Petrobras in Brazil, currently the fifth largest energy company in the world, Southern China Grid, a major regional power company supplying 230 million people, and the Gujarat State Electricity Corporation (GSECL) in India, which runs twelve power stations. Until now all pilot installations have been carried out by the IntelliSAW technical team, however the new pilot at the Southern China Grid site was carried out by a regional partner. As more of IntelliSAW's channel partners gain expertise in the product this will allow for significant scaling in the rate at which new sites can be added.

Scheduling pilots at such large and complex industrial sites presents significant logistical challenges, as the costs associated with lost operational time dictate that installations can only be carried out during scheduled periods of downtime. In addition, there are stringent performance and safety targets to meet given the critical nature of monitoring such key electrical assets which can result in extended periods of testing being required. However, given these challenges, the Company has been encouraged by the willingness of customers to undertake these pilots and believe this is a testament to the benefits the system provides.

Recent high-profile news stories relating to power grid failures in India are serving to demonstrate the pressing need to maximise the capacity of existing high capital cost infrastructure. The IntelliSAW solution meets this problem head-on, providing continuous real-time monitoring of switchgear temperatures, the leading indicator of potential failure in the switchgear cabinets. Previously announced pilots are continuing and the Company looks forward to these leading to full deployments as customer testing programmes are successfully concluded.

Translogik

iTrack

Following recent successful field trials Translogik received an initial order in August for its iTrack Tyre Temperature and Pressure Monitoring Systems for mining and off-the-road vehicles ("iTrack") from Kumba Iron Ore ("Kumba"), a wholly owned subsidiary of Anglo American Plc. This first batch of systems will be installed onto 29 large haul trucks at Kumba's Sishen mine in the country's Northern Cape Province, one of the seven largest open-pit mines in the world. It operates around the clock, twelve months a year, and in 2010 produced 41.3 million tons of iron ore.
Translogik now has a team member permanently based in South Africa who will be responsible for training Kumba's tyre service provider in the installation process and ongoing support of the system. It is anticipated that the South African Translogik team will expand as further mines sign up for the iTrack system.
This order from Kumba represents the first commercial success for Translogik's iTrack system in South Africa. Having a Company such as Kumba adopt the iTrack system demonstrates the value of the system to the wider mining industry. The ability to monitor the tyre performance of mining vehicles 24/7 and receive instant notification of any potential hazardous situations allows operators to achieve greater levels of safety and efficiency throughout their mines.
A further iTrack order was received from Translogik's Indonesian distributor, AutoRFID Solutions Sdn Bhd. ("AutoRFID"). These systems will be installed as part of a pilot scheme on three of the 168 vehicles at the ADARO mine in Indonesia, one of AutoRFID's clients. The ADARO mine is expanding its operations and expects to be running more than 300 vehicles by the end of 2014.
Enhancements to the iTrack system continue to be made, including Translogik's new mobile application for Android, "MobiTrack". Running on a variety of hand-held devices, the system allows tyre status to be read by the side of the vehicle - no need to gain access to the cab. It also allows remote configuration of the iTrack system and the ability to update tyre positions and adjust settings such as wheel layout/numbering, vehicle registration, in-cab warning levels, and enabling/disabling atmospheric pressure compensation.

Inspection Tools

In a major endorsement of the product, the Translogik iProbe was used by Michelin during its high-profile initiative to improve the safety of buses during the London 2012 Olympics. The iProbe+ was used to provide a wireless non-contact method of reading data from the Michelin 'communicating' tyres to monitor their condition.
By combining the Tyre Pressure Monitoring System (TPMS) and Radio Frequency Identification chips (RFID), Michelin sought to enable London urban transport operators to enhance the safety of the tyres fitted on their buses, thereby immediately improving the mobility of both vehicles and transport users.

Outlook

We are extremely positive about the developing opportunities to exploit Transense's sensor expertise through IntelliSAW and Translogik. The new IntelliSAW pilots are at major industrial sites and success at any of these could lead to volume orders for the IS485 system.
The iTrack order from Kumba represents the first commercial success for Translogik's iTrack system in South Africa and we are hopeful that the global exposure within the mining industry that this order has provided will translate into further commercial successes as we promote the global deployment of iTrack. We have already seen an example of this with the new AutoRFID pilot.

Graham Storey
CEO
2nd October 2012

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 given 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 presently consists of three executive and two 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.

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 is under the Chairmanship of Rodney Westhead, with David Kleeman also sitting. The Committee meets at least twice a year and has adopted terms of reference which give it responsibility for reviewing a wide range of financial matters. The Committee advises the Board on the appointment of external auditors and it discusses the nature and scope of their work.

Nomination Committee

Given its relatively small size, the Board as a whole fulfils the function of the Nomination committee.

Remuneration Committee

The policy on Directors' remuneration is formulated by the Remuneration Committee, which consists of David Kleeman as Chairman and Rodney Westhead. The Committee is responsible for determining the contract terms, remuneration and other benefits of the executive Directors. The non-executive directors' salaries are reviewed and set by the Board.

The report of the Remuneration Committee is set out on pages 7 to 9 below.

Accountability, Internal Control and Risk Management

The Directors consider that these financial statements, reports and supplementary information present a fair and accurate assessment of the Company's position and prospects.

Going Concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the reason below.

At 30 June 2012, the Group had net assets of £1.8m and a positive cash balance of £195,000. However following the successful fund raising in June 2012 a further £1.76m was raised producing £1.6m net of costs received in two tranches in July and August 2012. The Group meets its day to day working capital requirements through existing cash reserves and does not currently have an overdraft facility. The Directors have prepared cash flow forecasts for the period to 31 December 2013. These forecasts make a number of operational assumptions, the most significant of which is a substantially increased level of sales reflecting recently announced orders and future anticipated orders.

The forecast indicates that, assuming the anticipated increased level of sales are achieved, the Group will continue to be able to operate within its current cash resources for the foreseeable future.

However, were the timing of those sales to be delayed, then the group may require additional funding. In this event, the Directors believe that it would be necessary and possible to arrange bank facilities to provide sufficient funding in anticipation of the operations becoming cash generative.

The Directors have considered controllable mitigating actions available to them to extend the period during which it can operate with the remaining cash reserves. However, the ability to do this may be limited. On the basis that the

Statement of corporate governance *(continued)*

expected proceeds from the forecast increased level of sales materialises (or that appropriate bank facilities are made available), the Directors consider that the Group will continue to meet its liabilities as they fall due for the foreseeable future. However, there can be no certainty in relation to all these matters.

The Directors have concluded that the achievement and timing of the anticipated orders and also the potential requirement, and ability, to obtain external financing both represent material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The Group may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Internal Financial Control

Non-audit services provided by the auditors are reviewed by the Audit Committee to ensure that independence is maintained.

The Board is responsible for the Group's system of internal control including financial, operational and compliance controls and risk management, and for reviewing its effectiveness. The Board has introduced procedures designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. These procedures include an annual review of the significant risks faced by the Group and an assessment of their potential impact and likelihood of occurrence. The Board is satisfied with the effectiveness of internal controls but, by their very nature, these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. The Board has decided that, given the nature of the Group's business and assets and the overall size of the Group, the systems and procedures currently employed provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Group's assets, is in place. An internal audit function is therefore considered unnecessary.

Remuneration report

Remuneration Policy

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

During this development period of the Group'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. The salaries paid compare adequately with the salaries of Directors and senior executives in public companies in similar development situations.

The Remuneration Committee can also grant options over ordinary shares under its Enterprise Management Incentive Option Schemes (EMI) and options granted outside Company schemes, but approved by shareholders. These schemes potentially offer long term incentives to Directors and key personnel.

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

The Board as a whole sets the remuneration of the non-executive Directors, which consists of fees for their services in connection with Board and Board Committee meetings. The non-executive Directors are not eligible for pension scheme membership, but they do participate in the Company's Unapproved Directors Share Option Scheme (UDSOS).

Each element of remuneration paid to all Directors is shown in detail below. During the period David Ford became an Executive Director, having previously been a Non-Executive Director, and Melvyn Segal was appointed Finance Director.

Base Salary and Benefits

The base salaries for the executive Directors are reviewed, but not necessarily increased, annually by the Remuneration Committee. In the present development stage of the Company, salary increases in 2011 were the first for three years. Salary increases based on performance may be made when the Group's profitability allows.

The Chief Executive's salary was reviewed in 2011 and raised by 10%. In addition to his base salary he was also entitled to the following benefits: 25 days holiday per annum, cash allowance in lieu of a company car, permanent health insurance, private medical cover for themselves and their spouse and Life assurance based on three times basic annual salary.

Executive Share Option Schemes

The Committee considers that potential for share ownership and participation in the growing value of the Group increases the commitment and loyalty of Directors and senior executives.

Directors' Pension Policy

All executive Directors are entitled to enter, and are members of, the Company's defined contribution pension scheme, 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, but did not choose to participate in the scheme during the 18 month period ended 30 June 2012.

Remuneration report *(continued)*

Service contracts

Directors have rolling service contracts, which include the following policies, and similar will also be applied to any future Board appointment:

The notice period required by either the Company or Graham Storey to terminate his contract is 3 months;

The notice period required by either the Company or David Kleeman is one month;

There is no notice period with respect to Rodney Westhead's contract;

There is no notice period with respect to David Ford's contract;

There is no notice period with respect to Melvyn Segal's contract

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; and

In the event of termination for unsatisfactory performance (if necessary decided by an independent tribunal) or for reasons of misconduct, no compensation is payable.

Directors' Emoluments

Information on Directors' emoluments is as follows:

This table excludes the fair value of Directors' share based payment options as defined by International Financial Reporting Standard (IFRS) 2. Details of all options granted to Directors are shown on page 9.

Information on directors' emoluments is as follows:

						Total emoluments	
						18 Months ended 30 June 2012	12 Months ended 31 December 2010
		Basic Salary	**Fees**	**Benefits**	**Pension**	**2012**	2010
		£	£	£	£	£	£
Executive directors							
G Storey		218,854	-	7,813	-	**226,667**	137,500
NA Smith	*(1)*	-	-	-	-	**-**	24,458
M Segal	*(2)(3)*	-	11,220	-	-	**11,220**	6,000
D Ford		57,125	96,370	-	-	**153,495**	73,548
Non-executive directors							
D Kleeman		-	60,088	-	-	**60,088**	40,000
R Westhead		18,000	-	-	-	**18,000**	12,000
Total 2012		**293,979**	**167,678**	**7,813**	**-**	**469,470**	293,506
Total 2010		172,458	113,548	7,500	-	293,506	

(1) Resigned 15 September 2010

(2) Resigned 30 June 2010

(3) Appointed 11 June 2012

Remuneration report *(continued)*

Share based payment options have been granted under EMI for executive Directors and under the Unapproved Directors Share Option Scheme (UDSOS) for Non Executives. The details of these are set out below:

	At 1 Jan 2011	At 30 June 2012	Earliest exercise date	Exercise price per share	Hurdle price per share
Directors' interests in the UDSOS were:					
D G Kleeman	100,000	100,000	04/01/09	23p	-
R Westhead	60,000	60,000	01/02/11	10p	40p
G Storey	-	2,805,000	22/12/12	4p	9p
D Ford	-	305,000	22/12/12	4p	9p
M Segal (1)	625,000	625,000	01/02/11	10p	40p
Directors' interests in the EMI were:					
G Storey	875,000	3,195,000	22/12/12	4p	9p
D Ford	-	3,195,000	22/12/12	4p	9p

(1) – These options were granted to M Segal in February 2009 and were retained by him following his resignation in June 2010.

Share price performance

The share price performance is disclosed in the Directors' Report on page 11.

On behalf of the Board

D G Kleeman
Chairman, Remuneration Committee

Directors' report

The Directors present their annual report and audited financial statements for the period ended 30 June 2012.

Business activities, review of the business and future developments

The principal activities of the Company continue to be the development of non contact batteryless sensors and their electronic interrogation systems for measuring pressure, temperature and torque in automotive applications and extending that to various, non automotive, industrial applications with regards the electronic interrogation.

With the formation of Translogik Limited in April 2009 the principal activities of the Group were extended to include the provision of tyre management solutions for the truck and OTR markets.

Following the formation of IntelliSAW, a Trading Division of Transense, the principal activities of the group were further extended to include the provisions of electrical switchgear management.

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, and CEO's Statements on pages 2 to 4.

Results and Dividends

The results for the 18 months ended 30 June 2012 show a loss of £3,325,000 (12 Months ended 31 December 2010: £1,454,000 loss). The Directors do not recommend the payment of a dividend (12 Months ended 31 December 2010: £nil).

Directors

The present Directors are listed on page 1.

There are no contracts of significance in which the Directors had a material interest during the year.

Substantial Shareholdings

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

	Ordinary shares of 1p each	**%**
John Peter Lobbenberg	32,961,703	16.71
Octopus Investments Nominees Limited	15,555,556	7.89
Investec Wealth & Investment Limited	9,606,697	4.87
T D Direct Investing Nominees	8,133,864	4.12
Rock Nominees Limited	7,879,277	3.99
Chase Nominees Limited	6,839,941	3.47

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 period, all of which are beneficially held, were as follows:

	Ordinary shares of 1p each	
	30 June 2012	1 January 2011
D G Kleeman	3,469,930	2,016,666
G Storey	3,798,856	2,132,190
R J Westhead	282,777	116,111
D Ford	277,777	111,111
M Segal	1,144,444	1,144,444

Directors' report *(continued)*

Share price

The mid price of the shares in the Company at 30 June 2012 was 10.75p (12 Months ended 31 December 2010: 5.125p) and the range during the period was 12.38p to 3.38p (12 Months ended 31 December 2010: 9.5p to 3p).

Share based payment option Schemes

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

Details of share based payment options granted to Directors are disclosed in the Remuneration Report on page 9.

Financial Instruments

The Directors adopts a low risk financial objective. The financial instruments are denominated in sterling, euros and US dollars and the Group does not trade in derivative instruments, see note 24 to the financial statements.

Indemnification of Directors

Qualifying third party indemnity provisions (as defined in Section 413 of the Companies Act 2006) are in force for the benefit of the Directors who held office during 2011/12.

Policy and practice on payment of suppliers

The Group'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 30 June 2012 trade creditors represented less than 45 days' purchases (12 Months ended 31 December 2010: 45 days).

Disclosure of information to auditor

The Directors who hold office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

D G Kleeman
Director

G Storey
CEO

66 Heyford Park
Bicester
Oxon
OX25 5HD

Statement of directors’ responsibilities in respect of the Directors’ Report and the financial statements

The directors are responsible for preparing the Directors’ Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Group and Parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG Audit Plc

Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Independent Auditor's report to the members of Transense Technologies plc

We have audited the financial statements of Transense Technologies plc for the period ended 30 June 2012 set out on pages 15 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:
• the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2012 and of the group's loss for the period then ended;
• the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
• the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
• the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditor's report to the members of Transense Technologies plc
(Continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

• adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

• the parent company financial statements are not in agreement with the accounting records and returns; or

• certain disclosures of directors' remuneration specified by law are not made; or

• we have not received all the information and explanations we require for our audit.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern; in particular, the substantial achievement of forecasts and the ability to obtain bank facilities as may be necessary. These conditions, along with the other matters explained in note 2 of financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group were unable to continue as a going concern.

P D Selvey
(Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
RG7 4SD

2 October 2012

Consolidated Statement of Comprehensive Income
for the period ended 30 June 2012

	Note	**18 months ended 30 June 2012 £000**	12 months ended 31 December 2010 £000
Revenue	4	**1,014**	656
Cost of sales		**(449)**	(301)
Gross profit		**565**	355
Administrative expenses		**(3,997)**	(1,878)
Operating loss		**(3,432)**	(1,523)
Financial income	8	**34**	14
Financial expenses		**-**	-
Loss before taxation		**(3,398)**	(1,509)
Taxation	9	**73**	55
Loss for the period		**(3,325)**	(1,454)
Basic and fully diluted loss per share (pence)	23	**(2.24)**	(1.39)

There are no other recognised income or expenses in either period.

Notes to the financial statements are from pages 20 to 42.

The results are from continuing activities.

Consolidated Balance Sheet
at 30 June 2012

	Note	**18 months ended 30 June 2012 £000**	**18 months ended 30 June 2012 £000**	12 months ended 31 December 2010 £000	12 months ended 31 December 2010 £000
Non current assets					
Property, plant and equipment	10	**149**		114	
Intangible assets	12	**1,188**		1,420	
Available for sale assets	15	**-**		58	
			1,337		1,592
Current assets					
Inventories	16	**140**		41	
Corporation tax		**73**		55	
Trade and other receivables	17	**299**		400	
Cash and cash equivalents	18	**195**		2,066	
			707		2,562
Total assets			**2,044**		4,154
Current liabilities					
Trade and other payables	19	**(254)**		(367)	
Current tax liabilities		**(33)**		(23)	
Total liabilities			**(287)**		(390)
Net assets			**1,757**		3,764
Equity					
Issued share capital	21		**8,591**		8,145
Share premium			**9,753**		8,956
Warrant reserve	27		**430**		710
Accumulated loss			**(17,017)**		(14,047)
Total equity			**1,757**		3,764

These financial statements were approved by the board of directors on 2nd October 2012 and were signed on its behalf by:

D G Kleeman
Director

G Storey
CEO

Company registered number: 1885075

Notes to the financial statements are from pages 20 to 42

Company Balance Sheet
at 30 June 2012

	Note	**18 months ended 30 June**		12 months ended 31 December	
		2012	**2012**	2010	2010
		£000	**£000**	£000	£000
Non current assets					
Property, plant and equipment	11	**91**		41	
Intangible assets	13	**1,184**		1,213	
Available for sale assets	15	**-**		58	
Investment in subsidiary	14	**-**		5	
			1,275		1,317
Current assets					
Inventories	16	**132**		10	
Corporation tax		**73**		55	
Trade and other receivables	17	**339**		1,257	
Cash and cash equivalents	18	**183**		2,004	
			727		3,326
Total assets			**2,002**		4,643
Current liabilities					
Trade and other payables	19	**(246)**		(176)	
Current tax liabilities		**(33)**		(23)	
Total liabilities			**(279)**		(199)
Net assets			**1,723**		4,444
Equity					
Issued share capital	21		**8,591**		8,145
Share premium			**9,753**		8,956
Warrant reserve	27		**430**		710
Accumulated loss			**(17,051)**		(13,367)
Total equity			**1,723**		4,444

These financial statements were approved by the board of directors on 2nd October 2012 and were signed on its behalf by:

D G Kleeman
Director

G Storey
CEO

Company registered number: 1885075

Notes to the financial statements are from pages 20 to 42

Statement of Changes in Equity

Group

	Share capital £000	Share premium £000	Warrant reserve £000	Cumulative losses £000	Total equity £000
Balance at 1 January 2010	7,580	7,856	-	(12,608)	2,828
Loss for the year	-	-	-	(1,454)	(1,454)
Shares and warrants issued and share premium (note 21)	565	1,100	710	-	2,375
Share based payments (note 20)	-	-	-	15	15
As at 1 January 2011	**8,145**	**8,956**	**710**	**(14,047)**	**3,764**
Loss for the period	-	-	-	(3,325)	(3,325)
Shares issued and share premium (note 21)	446	797	-	-	1,243
Transfer between reserves			(280)	280	-
Share based payments (note 20)	-	-	-	75	75
Balance at 30 June 2012	**8,591**	**9,753**	**430**	**(17,017)**	**1,757**

Company

	Share capital £000	Share premium £000	Warrant reserve £000	Cumulative losses £000	Total equity £000
Balance at 1 January 2010	7,580	7,856	-	(12,373)	3,063
Loss for the year	-	-	-	(1,009)	(1,009)
Shares and warrants issued and share premium (note 21)	565	1,100	710	-	2,375
Share based payments (note 20)	-	-	-	15	15
As at 1 January 2011	**8,145**	**8,956**	**710**	**(13,367)**	**4,444**
Loss for the period	-	-	-	(4,039)	(4,039)
Shares issued and share premium (note 21)	446	797	-	-	1,243
Transfers between reserves			(280)	280	-
Share based payments (note 20)	-	-	-	75	75
Balance at 30 June 2012	**8,591**	**9,753**	**430**	**(17,051)**	**1,723**

Consolidated Cash Flow Statement
for the period ended 30 June 2012

	Note	Group		Company	
		18 months ended 30 June 2012	12 Months ended 31 December 2010	**18 months ended 30 June 2012**	12 Months ended 31 December 2010
		£000	£000	**£000**	£000
Loss before taxation		**(3,398)**	(1,509)	**(4,107)**	(1,009)
Adjustments for:					
Financial income	8	**(34)**	(14)	**(34)**	(14)
Depreciation	10,11	**78**	42	**39**	17
Amortisation of intangible assets	12,13	**320**	262	**301**	262
Loss on disposal of fixed assets		**11**	-	**11**	-
Share based payment	20	**75**	15	**75**	15
Operating cash flows before movements in working capital		**(2,948)**	(1,204)	**(3,715)**	(729)
Decrease/(increase) in receivables	17	**101**	(263)	**918**	(839)
(Decrease)/increase in payables	19	**(113)**	(101)	**70**	(93)
(Increase)/decrease in inventories	16	**(99)**	(8)	**(122)**	5
Cash used in operations		**(3,059)**	(1,576)	**(2,849)**	(1,656)
Taxation recovered		**65**	169	**65**	169
Net cash used in operations		**(2,994)**	(1,407)	**(2,784)**	(1,487)
Investing activities					
Interest received	8	**34**	14	**34**	14
Proceeds from disposal of fixed and investment ssets		**72**	-	**72**	-
Acquisitions of property, plant and equipment	10,11	**(112)**	(5)	**(103)**	(5)
Acquisitions of intangible assets	12,13	**(114)**	(188)	**(283)**	(81)
Net cash used in investing activities		**(120)**	(179)	**(280)**	(72)
Financing activities					
Proceeds from issue of equity share capital and warrants	21	**1243**	2375	**1243**	2375
Net cash from financing activities		**1,243**	2,375	**1,243**	2,375
Net (decrease)/increase in cash and cash equivalents		**(1,871)**	789	**(1,821)**	816
Cash and equivalents at the beginning of year		**2,066**	1,277	**2,004**	1,188
Cash and equivalents at the end of year	18	**195**	2,066	**183**	2,004

Notes to the Financial Statements

1 General Information

Transense Technologies plc ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The consolidated financial statements of the Company as at and for the period ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities"). The nature of the Group's operations and its principal activities are discussed in the business review on page 10.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

2 Basis of preparation

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

Going Concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the reason below.

At 30 June 2012, the Group had net assets of £1.8m and a positive cash balance of £195,000. However following the successful fund raising in June 2012 a further £1.76m was raised producing £1.6m net of costs received in two tranches in July and August 2012. The Group meets its day to day working capital requirements through existing cash reserves and does not currently have an overdraft facility. The Directors have prepared cash flow forecasts for the period to 31 December 2013. These forecasts make a number of operational assumptions, the most significant of which is a substantially increased level of sales reflecting recently announced orders and future anticipated orders.

The forecast indicates that, assuming the anticipated increased level of sales are achieved, the Group will continue to be able to operate within its current cash resources for the foreseeable future.

However, were the timing of those sales to be delayed, then the group may require additional funding. In this event, the Directors believe that it would be necessary and possible to arrange bank facilities to provide sufficient funding in anticipation of the operations becoming cash generative.

The Directors have considered controllable mitigating actions available to them to extend the period during which it can operate with the remaining cash reserves. However, the ability to do this may be limited. On the basis that the expected proceeds from the forecast increased level of sales materialises (or that appropriate bank facilities are made available), the Directors consider that the Group will continue to meet its liabilities as they fall due for the foreseeable future. However, there can be no certainty in relation to all these matters.

The Directors have concluded that the achievement and timing of the anticipated orders and also the potential requirement, and ability, to obtain external financing both represent material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The Group may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Notes *(continued)*

3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

There were no new standards, amendments to standards or interpretations that were mandatory for the first time for the financial year beginning 1 January 2011 that resulted in any material impact on the Groups 2011 consolidated financial statements.

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements.

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' (mandatory for year commencing on or after 1 July 2012).
- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (mandatory for year commencing on or after 1 January 2013).
- IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures (mandatory for year commencing on or after 1 January 2013).
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2013).
- IFRS 13 Fair Value Measurement (mandatory for year commencing on or after 1 January 2013).
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2013).
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014).

Significant accounting judgements and sources of estimation uncertainty

The accounting policy descriptions set out areas where management make certain judgements and estimations. The key areas that might have a significant risk of causing material adjustment within the next financial year are as follows:

- Management have considered the basis of preparation as disclosed in note 2.
- Estimations focus on areas such as carrying values, values in use and estimated lives of intangible assets;
- Determining when intangible assets are impaired is a judgement which requires an estimate of the value in use of the asset based on management best estimate of the future cash flows that the assets are expected to generate. This requires significant judgement as there are limited historic cash flows to base the future cash flows on. Discussions are held within the Company between the relevant technical, commercial and finance employees on the expected future cash flows of patents in individual territories; and
- Judgement is applied when patent costs are reviewed in particular relating to patents in territories that were not integral to the future business plans.

Measurement convention

The financial statements are prepared on the historical cost basis. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes *(continued)*

3 Accounting policies *(continued)*

Revenue recognition

Revenue is recognised to the extent that economic benefits will flow to the Group and the revenue can be reliably measured:

- Royalty income is recognised in the year in which the royalties have been earned;
- Engineering support income, being payments for support work to assist third parties in the development of the Group's technology for their own use, is recognised when the work is completed and invoiced; and
- Product sales to customers are recognised on customer acceptance of the goods.

Revenue represents sales to external customers at invoiced amounts net of VAT and other sales related taxes.

Segment reporting

The Group has one reportable segment being the use of SAW technology to measure temperature, pressure and torque. This is the Group's principal focus and the operations are managed as one business unit because it encompasses one technology.

The business segment includes royalties, engineering support and sale of product in relation to this technology.

Information regarding the Group's single segment is included in the primary statements and notes to the financial statements. Revenue is the Group's key focus and in turn is the main performance measure adopted by management.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment.

Depreciation of property, plant and equipment

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Plant and Equipment 3 – 5 years; and

Motor Vehicles 4 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Research and development

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Expenditure on development activities is capitalised if the product or process is: technically and commercially feasible; the Group intends and has the technical ability and sufficient resources to complete development; and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. All amounts deferred are stated at cost and amortised after commercial production commences over the periods benefitting from the sale of the products or processes. Amortisation is recognized in administrative expenses in the statement of comprehensive income on a systematic basis, at an amortisation rate of 10% p.a.

Patent fees

Externally acquired patent fees are capitalised at cost and treated as an intangible asset. Amortisation is charged to administrative expenses in the statement of comprehensive income over the period to which the patent relates which is a maximum of fifteen years.

In the event that a patent is superseded and the original intellectual property is embedded in a new patent, the costs of that patent and the later patents are regarded as the costs of the original patent and amortised over the life of the new patent.

Any impairment in value is recognised immediately in the statement of comprehensive income.

Notes *(continued)*

3 Accounting policies *(continued)*

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and is the difference between the cost of the acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its net selling price and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the asset does not generate cash flows that are largely independent from other assets, the recoverable amount is assessed by reference to the cash generating unit to which the asset belongs.

Whenever the carrying amount of an asset, or its cash generating unit, exceeds its recoverable amount, an impairment loss is recognised as an expense in the statement of comprehensive income.

Non-current asset investments

Investments classified as available for sale are measured at value through other comprehensive income.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit and loss. If the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit and loss.

Investments in subsidiary undertakings

In the company's financial statements, investments in subsidiary undertakings are stated at cost unless, in the opinion of the directors, there has been an impairment to their value in which case they are immediately written down to their estimated recoverable amount.

Pension costs

Contributions to the Company's defined contribution scheme are charged to the statement of comprehensive income in the year to which they relate.

Operating lease agreements

Rental payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit may differ from the net profit shown in the statement of comprehensive income because it excludes income or expenses that are taxable or deductible in other years and furthermore it might exclude other items that are never taxable or deductible.

Current tax is provided at amounts expected to be paid or recovered using tax rates and laws enacted or substantially enacted at the balance sheet date.

Deferred taxation

Deferred tax is provided in full, using the liability method. It represents the tax payable on temporary differences between the carrying amounts of assets and liabilities in the financial statements as compared to corresponding tax values used in the computation of taxable profit.

Notes *(continued)*

3 Accounting policies *(continued)*

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and liabilities are measured using tax rates enacted or substantially enacted at the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes only of the statement of cash flows.

Foreign currencies

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be.

Share-based payment transactions

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value so determined is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options. The estimate of the fair value of the services received is measured based on the Black-Scholes Option Pricing Model. This model takes into account the following variables: exercise price, share price at date of grant, expected term, expected share price volatility, risk free interest rate and expected dividend yield. Expected volatility is estimated by considering historic average share price volatility.

Warrants

Fair value is measured using a Black-Scholes-Merton option pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Provisions

Provisions are recognised when the Group has a present obligation as result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure. Provisions are discounted if the effect of doing so is material. A pre-tax rate that reflects risks specific to the liability is applied to the expected cash flows.

Trade receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Loans receivable

Loans receivable are stated at their nominal value, less any impairment if the loan is not considered fully recoverable.

Notes *(continued)*

3 Accounting policies *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

4 Revenue and segmental reporting

The table below sets out information for the Group's operating segments, the use of SAW technology.

	18 Months ended 30 June 2012	12 Months ended 31 December 2010
	£000	£000
Sale of goods	**918**	565
Royalties	**63**	21
Engineering support income	**33**	70
Total revenues	**1,014**	656

	Revenue from external customers	
	18 Months ended 30 June 2012	12 Months ended 31 December 2010
	£000	£000
North America	**303**	283
United Kingdom & Europe	**432**	17
Rest of the World	**279**	356
	1,014	656

During the 18 month period ended 30 June 2012 there were 2 (12 months ended 31 December 2010: 1) customers whose turnover accounted for more than 10% of the Group's total revenue as follows:

18 months ended 30 June 2012	**Turnover £,000**	**Percentage of total**
Customer A	**136**	**13%**
Customer B	**101**	**10%**

12 months ended 31 December 2010	Turnover £,000	Percentage of total
Customer A	166	25%

All non-current assets are held in the UK except for property, plant and equipment of £62,000 (12 months ended 31 December 2010: £Nil) which is held in the United States of America.

Notes *(continued)*

5 Expenses and auditor's remuneration

Included in the loss are the following:

	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Depreciation of property, plant and equipment	**78**	42
Amortisation of intangible assets	**320**	262
Operating lease rentals payable – property, plant and equipment	**46**	30
Restructuring costs expensed as incurred – included in within administrative expenses	**-**	-

Auditors' remuneration:

	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Audit of these financial statements	**22**	20
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**5**	5
Other services	**32**	-

Notes *(continued)*

6 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	18 Months ended 30 June 2012	12 Months ended 31 December 2010
Management and technical	**17**	16
Administration	**3**	2
Non-executive directors	**2**	3
	22	21

The aggregate payroll costs of these persons were as follows:

	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Wages and salaries	**1,937**	654
Share based payments (note 20)	**75**	15
Social security costs	**138**	67
Contributions to defined contribution pension plans	**32**	19
	2,182	755

7 Directors' remuneration

	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Directors' emoluments	**302**	180
Share based payments (note 20)	**26**	11
Fees payable for consulting services	**168**	113

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £218,854 (2010: £137,500). No company pension contributions were made to a money purchase scheme on his behalf (2010: nil). During the year, the highest paid director received share options awards and did not exercise share options under long term incentive schemes and no shares were received or receivable by the director in respect of qualifying services under a long term incentive scheme (2010: Nil) .

	18 Months ended 30 June 2012	12 Months ended 31 December 2010
	Number of directors	
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	-	-
The number of directors who exercised share options was	-	-
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	-	-

Notes *(continued)*

8 Finance income and expense

Recognised in profit or loss

	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Finance income		
Interest income on cash on deposit	**34**	14
Total finance income	**34**	14

9 Taxation

Recognised in the statement of comprehensive income

	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Current tax expense		
Current year	**73**	55
Tax credit in statement of comprehensive income	**73**	55

Notes *(continued)*

9 Taxation *(continued)*

Reconciliation of effective tax rate

	18 Months ended 30 June 2012	12 Months ended 31 December 2010
	£000	£000
Loss for the year	**(3,325)**	(1,454)
Total tax credit	**(73)**	(55)
Loss before tax	**(3,398)**	(1,509)
Tax using UK Corporation tax rate of 26% (2010: 28%)	**883**	423
Non deductible expenses	**(101)**	(10)
Current year losses for which no deferred tax asset was recognised	**(633)**	(413)
Research and development credit	**73**	55
Losses surrendered for research and development credit	**(150)**	-
Total tax credit	**73**	55
Deferred tax		
A deferred tax asset has not been recognised in respect of the following items:		
Tax Losses	**2,884**	2,484
Deductible temporary differences	**-**	-
	2,884	2,484

The Group has tax losses, subject to agreement by HM Revenue and Customs, in the sum of £11,829,000 (2010: £9,723,000), which are available for offset against future profits of the same trade. There is no expiry date for tax losses. The deductible temporary differences relate to property, plant and equipment and the taxable temporary differences relate to the patent rights. An appropriate asset will be recognised when the Group can demonstrate a reasonable expectation of sufficient taxable profits to utilise the temporary differences.

In his budget of 23 March 2011, the Chancellor of the Exchequer announced budget tax changes and reduced the main rate of corporation tax from 28% to 26% from 1 April 2011. The 2011 Budget also proposed a further 1% reduction to 25% from 1 April 2012. This amendment was included in the Finance (No. 3) Bill 2010-11 that received its third reading in the House of Commons on 5 July 2011 and therefore was substantively enacted for the purposes of FRS 19 as of that date.

In his budget of 21 March 2012, the Chancellor of the Exchequer announced a number of changes to the UK corporation tax rate. These included a reduction in the UK corporation tax rate from 26% to 24% effective from 1 April 2012 (this was substantively enacted as of 26 March 2012 and dealt with by Resolution under the Provisional Collection of Taxes Act).

As a result the effective tax rate used to calculate the current tax for the period ended 30 June 2012 was 26%.

The 2012 Budget also proposed a further 1% reduction to 23% effective from 1 April 2013 (this was substantively enacted as of 3 July 2012 and dealt with by Resolution under the Provisional Collection of Taxes Act). The UK government intends to further reduce the UK corporate income tax rate, to 22%, in annual increments of 1% per annum which will be enacted in successive Finance Bills. Consequently, the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements.

As a result the deferred tax asset as at 30 June 2012 has been calculated at 24%.

Notes *(continued)*

9 Taxation *(continued)*

As at the balance sheet date of 30 June 2012, the change announced in the 2012 budget to reduce the rate of UK corporation tax to 23% was not 'substantively enacted' and as such, in accordance with accounting standards, the effect of all other changes have not been reflected in the Company's financial statements as at 30 June 2012. The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantively enacted.

10 Property, plant and equipment – Group

	Plant and Equipment £000	Motor Vehicles £000	Total £000
Cost			
Balance at 1 January 2010	381	43	424
Additions	5	-	5
Balance at 31 December 2010	386	43	429
Balance at 1 January 2011	386	43	429
Additions	112	-	112
Transfer from intangibles	15	-	15
Disposal	-	(32)	(32)
Balance at 30 June 2012	**513**	**11**	**524**
Depreciation and impairment			
Balance at 1 January 2010	261	12	273
Depreciation charge for the period	34	8	42
Balance at 31 December 2010	295	20	315
Balance at 1 January 2011	295	20	315
Depreciation charge for the period	69	9	78
Disposal	-	(18)	(18)
Balance at 30 June 2012	**364**	**11**	**375**
Net book value			
At 1 January 2010	120	31	151
At 1 January 2011	91	23	114
At 30 June 2012	**149**	**-**	**149**

Notes *(continued)*

11 Property, plant and equipment – Company

	Plant and Equipment £000	Motor Vehicles £000	Total £000
Cost			
Balance at 1 January 2010	281	43	324
Additions	5	-	5
Balance at 31 December 2010	286	43	329
Balance at 1 January 2011	286	43	329
Additions	22	-	22
Transfer of Translogik assets	137	-	137
Disposal	-	(32)	(32)
Balance at 30 June 2012	**445**	**11**	**456**
Depreciation and impairment			
Balance at 1 January 2010	259	12	271
Depreciation charge for the period	9	8	17
Balance at 31 December 2010	268	20	288
Balance at 1 January 2011	268	20	288
Depreciation charge for the period	30	9	39
Transfer of Translogik assets	56	-	56
Disposal	-	(18)	(18)
Balance at 30 June 2012	**354**	**11**	**365**
Net book value			
At 1 January 2010	22	31	53
At 1 January 2011	18	23	41
At 30 June 2012	**91**	**-**	**91**

Notes *(continued)*

12 Intangible assets – Group

	Goodwill £000	Patents rights and trademarks £000	Development costs £000	Total £000
Cost				
Balance at 1 January 2010	100	1,084	1,010	2,194
Additions	-	104	84	188
Balance at 31 December 2010	100	1,188	1,094	2,382
Balance at 1 January 2011	100	1,188	1,094	2,382
Additions	-	110	4	114
Transfers to fixed assets			(15)	(15)
Disposals	-	(15)		(15)
Balance at 31 June 2012	**100**	**1,283**	**1,083**	**2,466**
Amortisation and impairment				
Balance at 1 January 2010	-	471	229	700
Amortisation for the period	-	149	113	262
Balance at 31 December 2010	-	620	342	962
Balance at 1 January 2011	-	620	342	962
Amortisation for the period	-	159	161	320
Disposal	-	(4)	-	(4)
Balance at 30 June 2012	**-**	**775**	**503**	**1,278**
Net book value				
At 1 January 2010	100	613	781	1,494
At 1 January 2011	100	568	752	1,420
At 30 June 2012	**100**	**508**	**580**	**1,188**

Amortisation and impairment charge

The amortisation is recognised in the following line items in the statement of comprehensive income:

	2012 £000	2010 £000
Administrative expenses	**320**	262
	320	262

Notes *(continued)*

12 Intangible assets – Group *(continued)*

Impairment testing

Impairment testing has been performed over the total balance of intangible assets which are allocated to the one cash generating unit of the Group, that of the development and sales of SAW technology.

The recoverable amount of goodwill and intangible assets is determined from value-in-use calculations, which use budgeted cash flows for year one and cash flow projections for years 2 to 5,an average growth rate of 8% has been applied to these. For cash flow after year 5 and up to the useful life of the intangible assets, a steady state based on year 5 cash flow has been assumed.

The key assumptions forming inputs to cash flows are revenues and margins. The forecasts have been discounted at a pre-tax discount rate of 10%.

13 Intangible assets – Company

	Goodwill	Patents rights £000	Development costs £000	Total £000
Cost				
Balance at 1 January 2010	-	1,084	1,010	2,094
Additions		100	31	131
Transfers out		(50)	-	(50)
Balance at 31 December 2010	-	1,134	1,041	2,175
Balance at 1 January 2011	-	1,134	1,041	2,175
Additions		110	-	110
Transfers of Translogik assets	100	54	38	192
Disposal		(15)	-	(15)
Balance at 30 June 2012	**100**	**1,283**	**1,079**	**2,462**
Amortisation and impairment				
Balance at 1 January 2010	-	471	229	700
Amortisation for the year	-	149	113	262
Balance at 31 December 2010	-	620	342	962
Balance at 1 January 2011	-	620	342	962
Amortisation for the year	-	155	146	301
Transfers of Translogik assets	-	4	15	19
Disposal	-	(4)	-	(4)
Balance at 30 June 2012	**-**	**775**	**503**	**1,278**
Net book value				
At 1 January 2010	-	613	781	1,394
At 1 January 2011	-	514	699	1,213
At 30 June 2012	**100**	**508**	**576**	**1,184**

Notes *(continued)*

13 Intangible assets – Company *(continued)*

Amortisation and impairment charge

The amortisation and impairment charge has been charged to the parent company loss for the period.

	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Other operating expenses	**301**	262
	301	262

14 Investments in subsidiaries

The Group and Company have the following investments in subsidiaries:

	Country of Incorpor-ation	**Class of shares held**	**Ownership 2012**	2010
Translogik Limited	England	Ordinary shares	**100%**	100%
IntelliSAW Inc.	USA	Ordinary Shares	**100%**	-

The investments are included in the Company balance sheet at £Nil. (2010: £5,000). During the period ended 30 June 2012 an overseas entity IntelliSAW Inc was set up as a 100% owned subsidiary. On 1 January 2012, the trade and assets of Translogik Limited were hived up into the parent company's balance sheet.

15 Available for sale investments

	Group and Company 30 June 2012 £000	31 December 2010 £000
Cost of investment	-	90
Impairment	-	(32)
Wheelsure Holdings Plc equity investment	**-**	58

The investment in Wheelsure Holdings was sold in March 2011 for £59,000.

Notes *(continued)*

16 Inventories

	Group 30 June 2012 £000	31 December 2010 £000	Company 30 June 2012 £000	31 December 2010 £000
Stock	**140**	41	**132**	10
	140	41	**132**	10

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the 18 month period ended 30 June 2012 amounted to £457,269 (12 month ended 31 December 2010: £301,000). The write-down of inventories to net realisable value amounted to £nil (12 month ended 31 December 2010: £nil).

17 Trade and other receivables

	Group 30 June 2012 £000	31 December 2010 £000	Company 30 June 2012 £000	31 December 2010 £000
Trade receivables	**152**	218	**150**	140
Intercompany amounts receivable	**-**	-	**44**	981
Other receivables	**72**	91	**70**	41
Prepayments	**75**	91	**75**	95
	299	400	**339**	1,257

Included within trade and other receivables is £nil (2010: £nil) for the Group and Company expected to be recovered in more than 12 months.

18 Cash and cash equivalents

	Group 30 June 2012 £000	31 December 2010 £000	Company 30 June 2012 £000	31 December 2010 £000
Cash and cash equivalents per balance sheet	**195**	2,066	**183**	2,004
Cash and cash equivalents per cash flow statements	**195**	2,066	**183**	2,004

Notes *(continued)*

19 Trade and other payables

	Group 18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000	**Company** 18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Current				
Trade payables	**144**	131	**136**	131
Non-trade payables and accrued expenses	**110**	236	**110**	45
	254	367	**246**	176

All trade and other payables are current.

20 Employee benefits

Defined contribution plans

The Group operates a defined contribution pension plan.

The total expense relating to these plans in the 18 month period ending 30 June 2012 was £32,000 (12 month period ending 31 December 2010: £16,000).

Share-based payments – Group and Company

The Group and Company has two share option plans, the Unapproved Discretionary Share Option Scheme and Enterprise Management Share Option scheme the principal provisions of which are summarised below:

Options to subscribe for Ordinary Shares of the Company may be granted (at the discretion of the Board) to selected employees or directors of the Company. No consideration is payable for the grant of an option. Options are not transferable or assignable.

The fair value of share options granted is recognised as an employee expense, within administrative expenses, with a corresponding increase in reserves. All options are settled by the physical delivery of shares.

The fair value of services rendered in return for share-based payments granted is measured by reference to the fair value of those share-based payments. The estimate of the fair value of services received is measured with reference to the Black-Scholes options pricing model. The Black-Scholes model takes into account the exercise price, share price at grant date, expected term, expected share price volatility which is estimated to be 71.7% (2011:58%), risk free interest rate of 0.65% (2011:3.8%) and expected dividend yield of nil pence (2011:£nil). The key variable is share price volatility.

There is a charge of £75,000 (2011: £15,000) which includes £12,000 in respect of the old 2010 scheme. The charge included in administrative expenses is not chargeable to corporation tax.

Notes *(continued)*

20 Employee benefits *(continued)*

Unapproved Discretionary Share Option Scheme

At 30 June 2012 the following share options remained outstanding under the Company's Unapproved Discretionary Share Option Scheme.

Number of Options				Option Price	Date of Grant	Date of Exercise	
1 January 2011	Granted	Cancelled	30 June 2012			First	Last
100,000	-	-	100,000	23.00p	01.04.07	01.04.09	03.01.13
60,000	-	-	60,000	10.00p	01.02.09	01.02.11	31.01.14
625,000	-	-	625,000	10.00p	01.02.09	01.02.11	31.01.14
-	3,110,000	-	3,110,000	04.00p	22.12.11	22.12.12	22.12.17
-	7,090,000	-	7,090,000	04.00p	06.03.12	06.03.13	06.03.22

The assumptions used in the valuation of the current share options are as follows, the value attributable to the older options has been accounted in earlier periods:

Date of grant	Estimated fair value	Share price	Option price	Expected volatility %	Expected Life	Risk free rate %	Expected dividends %
22.12.11	£0.0052	£0.3750	£0.4000	71.70%	1.5 Years	0.65%	Nil
06.03.12	£0.0052	£0.7500	£0.4000	71.70%	1.5 Years	0.65%	Nil

Enterprise Management Incentive Option Scheme

At 30 June 2012, the following shares remained outstanding under an Enterprise Management Incentive Option Scheme.

Number of Options				Option Price	Date of Grant	Date of Exercise	
1 January 2011	Granted	Cancelled	30 June 2012			First	Last
2,530,000	-	2,530,000	-	14.00p	27.10.10	27.10.11	31.01.14
-	14,640,000	-	14,640,000	04.00p	22.12.11	22.12.12	22.12.17
-	1,000,000	-	1,000,000	07.05p	05.03.12	05.03.13	05.03.22
-	1,000,000	-	1,000,000	06.25p	10.05.12	25.12.12	10.05.22

Notes *(continued)*

20 Employee benefits *(continued)*

The assumptions used in the valuation of the share options are as follows:

Date of grant	Estimated fair value	Share price	Option price	Expected volatility %	Expected Life	Risk free rate %	Expected dividends %
22.12.11	£0.0052	£0.3750	£0.0400	71.70%	1.5 Years	0.65%	Nil
05.03.12	£0.0052	£0.0750	£0.0750	71.70%	1.5 Years	0.65%	Nil
10.05.12	£0.0052	£0.0625	£0.0625	71.70%	1.5 Years	0.65%	Nil

Previous directors

As at 30 June 2012, the following options remained outstanding in respect of a previous Board Member who has resigned but was allowed to retain his options.

Number of Options				Option Price	Date of Grant	Date of Exercise	
1 January 2011	Granted	Cancelled	30 June 2012			First	Last
375,000	0	0	375,000	10.00p	16.09.08	01.01.09 - 01.01.11	31.12.12 - 31.12.15
250,000	0	0	250,000	10.00p	01.02.09	01.02.11	31.01.14

The value attributable to the above shares has been accounted for in earlier periods.

21 Capital and Reserves

Issued Share Capital	Ordinary shares of 1 pence 30 June 2012	Ordinary shares of 1 pence 31 December 2010	Deferred shares of 9 pence 30 June 2012	Deferred shares of 9 pence 31 December 2010
On issue at 1 January 2011	**132,207,136**	75,807,138	**75,807,138**	-
Issued for cash Ordinary Shares at £0.01 on 1 July 2010	-	56,399,998	-	-
Issued for cash Ordinary Shares at £0.01 on 30 December 2011	**44,647,369**	-	-	-
Deferred Shares at £0.09 created on 1 July 2010	-	-	-	75,807,138
On issue at 30 June 2012 – fully paid	**176,854,505**	132,207,136	**75,807,138**	75,807,138

Notes *(continued)*

21 Capital and reserves *(continued)*

	30 June 2012	31 December 2010
	£000	£000
Allotted, called up and fully paid		
Ordinary shares of £0.01 each	**1,768**	1,322
Deferred shares of £0.09 each	**6,823**	6,823
	8,591	8,145
Shares classified as liabilities	**-**	-
Shares classified in shareholders' funds	**8,591**	8,145
	8,591	8,145

In December 2011 the Company raised net funds of £1.2million with 44,647,369 new shares being issued. As part of this share issue 22,243,240 warrants were exercised, and as part of the issue 11,121,606 bonus shares were issued to the warrant holders who exercised their warrants. There were also 11,058,333 new shares placed. There has been a deduction of £99,922 deducted from the share premium account as transaction costs of the new equity.

Each Ordinary Share resulting from the Share Re-organisation has the same rights (including voting and dividend rights and rights on a return of capital) as each Existing Ordinary Share.

The Deferred Shares, as their name suggests, have very limited rights which are deferred to the Ordinary Shares and effectively carry no value as a result. Accordingly, the holders of the Deferred Shares are not entitled to receive notice of, attend or vote at general meetings of the Company, nor are they entitled to receive any dividends or any payment on a return of capital until at least £10,000,000 has been paid on each Ordinary Share. No application was made for the Deferred Shares to be admitted to trading on AIM. The Company was given power to arrange for all the Deferred Shares to be transferred to a custodian or to be purchased for nominal consideration only without the prior sanction of the holders of the Deferred Shares. No share certificates for the Deferred Shares were issued.

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group and Company	
	30 June 2012	31 December 2010
	£000	£000
Less than one year	**30**	30
Between one and five	**-**	-
More than five years	**-**	-
	30	30

The operating lease relates to the property which is used by the Group and Company which has an annual break clause. During the period £46,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases (12 month period ended 31 December 2010: £30,000).

Notes *(continued)*

23 Basic and fully diluted loss per share

Basic loss per share is calculated by dividing the loss after taxation of £3,325,000 (2010: £1,454,000) by the weighted average number of ordinary shares in issue during the year of 147,859,462 (2010: 132,207,136). Options over the ordinary shares are not included in the calculation of diluted loss per share as their effect is anti-dilutive.

24 Financial instruments

Financial risk management overview

The Group has exposure to the following risks, to varying degrees, from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to liquidity and market risks, the companies' objectives, policies and processes for measuring and managing risk, and the companies' management of capital.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has a cash balances at period end totalling £195,000 (2010: £2,066,000). Note 1 describes the potential uncertainties relating to the liquidity risk. The Group has no external borrowing and finances its operations by raising equity finance on the Alternative Investment Market (AIM).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, equity price and interest rate risk will affect the Group's income or the value of its holdings of financial instruments.

Foreign exchange rate risk is insignificant as substantially all sales are denominated in sterling the Group's functional currency.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	30 June 2012	31 December 2010
	£'000	£'000
Variable rate instruments	**118**	197
Financial assets	**77**	1,869

The fair values of the Group's financial instruments are measured using inputs other than quoted prices that are directly or indirectly observable

Cash flow sensitivity analysis for variable rate instruments

Due to the current unprecedented low rates of interest a change of 100 basis points in interest rates at the reporting date would not have created any material change in the profit or loss for 2011 or 2010.

The directors consider that the Group's exposure to interest rates is low (2010: low). Cash is invested in deposits with UK high street banks. Low and falling interest rates will reduce returns on these balances.

Notes *(continued)*

24 Financial instruments *(continued)*

Management of capital

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In order to do this the group may issue new shares in the future. There were no changes to the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

25 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that may subject the Group to credit risk consist of cash, cash equivalents, unsecured loan stock receivables and trade and other receivables. The maximum credit exposure was £152,000 (2010: £218,000) which is the respective carrying amounts (which is not significantly different to their fair value and contractual cash flow). There were no financial assets that were past due at the period end.

At 30 June 2012 the Group's cash was divided between current accounts £118,000 (2010: £135,000) and £77,000 in fixed rate monthly deposits (2010: £1,931,000) with a weighted average interest rate for the year of 1.68% (2010: 1.90%). Cash and cash equivalents are held only in high street banks.

The Group offers trade credit to customers, who are well established and major companies, in the normal course of business. The Group operates stringent credit control procedures on potential customers before allowing credit.

The Group continually monitors its position with, and the credit quality of, the financial institutions, which are counterparts to its financial instruments, and does not anticipate non-performance or that there is a concentration of credit risk. Credit risk is considered to be low given the cash position of the Group and that there is a low exposure level in the trade and other receivables.

26 Contingencies and commitments

Group

The Group had no capital commitments or contingent liabilities as at 30 June 2012 (2010: £nil).

Company

The Company has no capital commitments or contingencies as at 30 June 2012 (2010: £nil).

27 Warrants

In December 2011 22,467,430 of the 56,399,998 options were exercised (2010: nil) as part of the share issue described in note 21. The fair value of the warrants has been calculated using the Black Scholes Merton model. The inputs into the model were as follows:

	18 Months ended 30 June 2012	12 Months ended 31 December 2010
Weighted average share price	**4.5p**	4.5p
Weighted average exercise price	**4.5p**	4.5p
Expected volatility	**45.37%**	45.37%
Risk free rate	**3.37%**	3.37%
Expected dividend yield	**Nil**	Nil

Expected volatility was determined using as a base the share price movements recorded over a 12 month period and taking into account any specific factors impacting during the period. This has created a warrant reserve net of apportioned issue costs in equity of £430,000 (2010:£710,000)

Notes *(continued)*

28 Related parties

Group

Transactions with key management personnel who are defined as the Directors of the Company and their immediate relatives control 1per cent of the voting shares of the Company.

The compensation of key management personnel (being the directors) is as follows:

	Group and Company	
	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000
Key management emoluments including social security costs	**287**	137
Company contributions to money purchase pension plans	**-**	-
Compensation for loss of office	**-**	-
Share related awards	**17**	-
	322	137

Company

Other related party transactions

	Sales to		**Administrative expenses incurred from**	
	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000	**18 Months ended 30 June 2012 £000**	12 Months ended 31 December 2010 £000
Subsidiary companies	**345**	380	**828**	380
	345	380	**828**	380

	Receivables outstanding		**Payables outstanding**	
	18 Months ended 30 June 2012 £000	12 Months ended 31 December 2010 £000	**18 Months ended 30 June 2012 £000**	12 Months ended 31 December 2010 £000
Subsidiary companies	**-**	134	**-**	39
	-	134	**-**	39