

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or as to the action you should take, you should immediately consult an independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended, who specialises in advising on the acquisition of shares and other securities.**

If you have sold or transferred all of your Ordinary Shares, please forward this document at once, together with the accompanying Form of Proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. If you have sold or transferred some of your Ordinary Shares, please consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules, has been issued in connection with the proposed re-admission to trading of the Existing Ordinary Shares and the admission to trading of the New Ordinary Shares on AIM, a market operated by London Stock Exchange plc. This document does not comprise a prospectus for the purposes of the Prospectus Rules and has not been approved by or been filed with the Financial Services Authority.

The Company, the Directors and the Proposed Directors, whose names appear on page 5 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Company, the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Trading in Ordinary Shares was suspended on 11 October 2007 following the Board's announcement regarding the Acquisition and will resume on the publication of this document. If the Acquisition is approved by the holders of Existing Ordinary Shares at the General Meeting to be held on 16 November 2007, the dealing facility for the Existing Ordinary Shares will be cancelled with effect from 19 November 2007. Applications will be made to London Stock Exchange plc for the Existing Ordinary Shares to be re-admitted to trading on AIM and for the New Ordinary Shares to be admitted to trading on AIM. It is anticipated that First Admission will occur and that dealings in the Existing Ordinary Shares and the New EIS Shares will commence on AIM on 19 November 2007 and that Second Admission will occur and that dealings in the Non-EIS Shares and the Consideration Shares will commence on AIM on 20 November 2007. The Existing Ordinary Shares are not dealt on any recognised investment exchange and no application has been made or is being made for the Existing Ordinary Shares or the New Ordinary Shares to be admitted to any such exchange.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the Financial Services Authority. A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.**

**The whole of the text of this document should be read. The rules of AIM are less demanding than those of the Official List and it is emphasised that no application is being made for the admission of the Ordinary Shares to the Official List. The attention of persons receiving a copy of this document is drawn to the Risk Factors set out in Part I of this document.**

# TRANSENSE TECHNOLOGIES PLC

*(Incorporated in England & Wales under the Companies Act 1985 with registered no. 1885075)*

## PROPOSED ACQUISITION OF BISHOP TECHNOLOGY GROUP LIMITED

**PLACING OF 24,763,892 NEW ORDINARY SHARES AT 23p PER SHARE**

**RE-ADMISSION TO TRADING ON AIM**

**PROPOSED ADOPTION OF THE TRANSENSE TECHNOLOGIES PLC 2007 UNAPPROVED  
DISCRETIONARY SHARE OPTION SCHEME**

**and**

**NOTICE OF GENERAL MEETING**

## NOBLE & COMPANY LIMITED

**Nominated Adviser and Broker**



NOBLE

### Ordinary share capital immediately following Second Admission

<i>Authorised</i>			<i>Issued and fully paid<sup>(1)</sup></i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
180,000,000	£18,000,000	Ordinary Shares of 10p each	119,167,611	£11,916,761.10

(1) This assumes the maximum number of Placing Shares are placed.

All the New Ordinary Shares will, on Admission, rank in full for all dividends and other distributions declared, paid or made in respect of the issued ordinary share capital of the Company and otherwise will rank *pari passu* in all respects with the Existing Ordinary Shares in issue.

This document does not constitute or form part of any offer or invitation to purchase or subscribe for, sell or issue, or the solicitation of any offer to purchase or subscribe for Ordinary Shares in any jurisdiction in which such offer, invitation or solicitation is unlawful. The Ordinary Shares have not been nor will they be registered under the United States Securities Act of 1933, as amended ("Securities Act"), or under the securities laws of any state of the United States or under the applicable securities laws of Australia, the Republic of South Africa, Japan or Canada. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered, sold, transferred, taken up or delivered, directly or indirectly, in the United States, Australia, the Republic of South Africa, Japan or Canada or for the benefit of any US person (as defined in Regulation S under the Securities Act). The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Noble, which is authorised and regulated in the United Kingdom by the Financial Services Authority and is a member of the London Stock Exchange, is the Company's Nominated Adviser and Broker for the purposes of the AIM Rules for Companies and is acting exclusively for the Company in connection with the Placing and Admission. Noble will not be responsible to anyone other than the Company for providing the protections afforded to customers of Noble or for advising any other person on the Placing or Admission and other arrangements described in this document. Its responsibilities as the Company's Nominated Adviser and Broker under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director, Proposed Director or to any other person who may rely on any part of this document.

Noble has not authorised the contents of any part of this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Noble for the accuracy of any information or opinions contained in this document nor for the omission of any material information from this document and no representation or warranty, express or implied, is made by Noble as to any of the contents of this document, for which the Company, its Directors and Proposed Directors are solely responsible. The information contained in this document has been prepared solely for the purposes of Admission and is not intended to inform or be relied upon by any subsequent purchaser of the Ordinary Shares and accordingly no duty of care is accepted in relation to them.

This document has not been nor will it be filed with, approved by or notified to the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The Ordinary Shares are only to be publicly offered in Germany under an exemption from the requirement to file or notify, as the case may be, a prospectus pursuant to the German Securities Prospectus Act (Wertpapierprospektgesetz). No action has been or will be taken in the Federal Republic of Germany that would permit a public offering of the Ordinary Shares. Therefore, this document, copies of this document or any other document relating to the Ordinary Shares may not be distributed, and the Ordinary Shares may neither directly nor indirectly be offered or sold in Germany other than to qualified investors as defined in sec. 2 no. 6 of the German Securities Prospectus Act or otherwise to a limited group of investors as provided for in sec. 3 (2) no. 2 of the

German Securities Prospectus Act. Accordingly, this document does not constitute a public offering of Ordinary Shares in Germany. The Ordinary Shares may not be offered or sold, directly or indirectly, in connection with a public offering in the Federal Republic of Germany.

This document has not been nor will it be registered with or approved by the Swedish Financial Supervisory Authority (Finansinspektionen) or the Stockholm Exchange (Stockholmsbörsen). Accordingly, this document may not be made available, nor may the Ordinary Shares offered hereunder be marketed and offered for sale in Sweden, other than under circumstances which are deemed not to be an offer to the public in Sweden under the Swedish Financial Instruments Trading Act (1991: 980).

This document is exempt from the general restrictions on communication of invitations or inducements to enter into investment activity and has therefore not been approved by an authorised person, as would otherwise be required by section 23 of the Danish Securities Trading Act, as amended. Consequently, this document does not constitute a prospectus for the purposes of the Danish Securities Trading Act. If you are a Danish investor and are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Danish Securities Trading Act immediately. This document is to be made available in the Kingdom of Denmark only (i) to a limited number of prospective investors who are Investment Professionals within the meaning of Article 23 of the Danish Securities Trading Act or (ii) to persons to whom it may otherwise be lawful to distribute it. The Danish FSA has not itself examined or approved the contents of this document.

Notice of a General Meeting of the Company to be held at the offices of Travers Smith, 10 Snow Hill, London EC1A 2AL at 11.00 a.m. on 16 November 2007 is set out at the end of this document. To be valid, the Form of Proxy accompanying this document for use at the General Meeting must be completed and returned, in accordance with the instructions thereon, so as to be received by the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 11.00 a.m. on 14 November 2007.

Copies of this document will be available during normal business hours on any day (except Saturdays, Sundays and public holidays) free of charge for the period from the date of this document until one month after First Admission from the principal place of business of the Company, 66 Heyford Park, Upper Heyford, Bicester, Oxfordshire OX25 5HD and the offices of the Company's Nominated Adviser and Broker, Noble & Company Limited, 120 Old Broad Street, London EC2N 1AR.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Despatch of this document	22 October 2007
Latest time and date for receipt of Forms of Proxy for the General Meeting	11.00 a.m. on 14 November 2007
General Meeting	11.00 a.m. on 16 November 2007
Completion of the Acquisition in escrow	16 November 2007
First Admission and commencement of dealings in the Existing Ordinary Shares and the New EIS Shares on AIM	8.00 a.m. on 19 November 2007
Delivery of the New EIS Shares to CREST stock accounts	19 November 2007
Second Admission and commencement of dealings in the Non-EIS Shares and the Consideration Shares on AIM	8.00 a.m. on 20 November 2007
Completion of the Acquisition	20 November 2007
Delivery of the Non-EIS Shares to CREST stock accounts	20 November 2007
Despatch of definitive share certificates in respect of the New Ordinary Shares (where applicable) by	29 November 2007

## PLACING STATISTICS

Number of Existing Ordinary Shares in issue	56,868,166
Placing Price per Placing Share	23p
Number of the New EIS Shares being issued pursuant to the First Placing at First Admission *	130,435
Number of Non-EIS Shares being issued pursuant to the Second Placing at Second Admission *	24,633,457
Total number of Placing Shares being issued pursuant to the Placing *	24,763,892
Placing Shares as a percentage of the Enlarged Share Capital *	21 per cent.
Gross proceeds of the Placing *	£5.7m
Estimated net proceeds of the Placing receivable by the Company *	£4.4m
Number of Consideration Shares being issued pursuant to the Acquisition Agreement at Second Admission	37,535,553
Consideration Shares as a percentage of the Enlarged Share Capital *	31 per cent.
Number of Ordinary Shares in issue immediately following Second Admission (the Enlarged Share Capital) *	119,167,611
Market capitalisation of the Enlarged Share Capital, at the Placing Price, following completion of the Acquisition and the Placing *	£27.4m

\* *This assumes the maximum number of Placing Shares are placed*

## **DIRECTORS, PROPOSED DIRECTORS, SECRETARY AND ADVISERS**

### **Directors**

Peter Woods (*Non-Executive Chairman*)  
James Perry (*Chief Executive Officer*)  
Howard Pearl (*Finance Director*)  
Graham Eves (*Commercial Director*)  
Ray Lohr (*Technical Director*)  
Antony Baldry (*Non-Executive Director*)  
Rodney Westhead (*Non-Executive Director*)

*all of:*

66 Heyford Park  
Upper Heyford  
Bicester  
Oxfordshire OX25 5HD

### **Proposed Directors**

Bruce Grey (*Proposed Chief Executive Officer*)  
Tim Renfrey (*Proposed Finance Director*)

*both of:*

10 Waterloo Road  
North Ryde NSW 2113  
Australia

### **Company secretary**

Watlington Securities Limited

### **Registered office**

Transense Technologies plc  
36 Elder Street  
London E1 6BT

### **Nominated Adviser and Broker and financial adviser to the Company**

Noble & Company Limited  
120 Old Broad Street  
London EC2N 1AR

### **Australian financial adviser to the Company**

Kenilworth Partners Pty Limited  
Level 1  
2 Barrack Street  
Sydney NSW 2001  
Australia

### **Solicitors to the Company in respect of English law**

Travers Smith  
10 Snow Hill  
London EC1A 2AL

### **Solicitors to the Company in respect of Australian law**

Mallesons Stephen Jaques  
Level 61  
Governor Phillip Tower  
1 Farrer Place  
Sydney NSW 2000  
Australia

### **Solicitors to the Nominated Adviser and Broker and to the Placing**

Eversheds LLP  
Senator House  
85 Queen Victoria Street  
London EC4V 4JL

**Reporting Accountants**

KPMG Audit Plc  
Arlington Business Park  
Theale  
Reading  
Berkshire RG7 4SD

**Registrars**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## DEFINITIONS

In this document, where the context permits, the expressions set out below shall bear the following meanings:

<b>“2006 Act”</b>	Companies Act 2006
<b>“2007 Unapproved Scheme”</b>	Transense Technologies 2007 Unapproved Discretionary Share Option Scheme, further details of which are set out in paragraph 4.4 of Part VI of this document
<b>“Acquisition”</b>	proposed acquisition, by the Company, of the entire issued share capital of Bishop and the proposed cancellation of options to acquire shares in Bishop
<b>“Acquisition Agreement”</b>	conditional agreement, dated 22 October 2007, between the Vendors and the Company relating to the sale and purchase of the entire issued share capital of Bishop and the cancellation of options to acquire shares in Bishop, more particularly described at paragraph 14 of Part VI of this document
<b>“Act”</b>	Companies Act 1985, as amended
<b>“Admission”</b>	First Admission and/or Second Admission, as the context may require or permit
<b>“AIM”</b>	AIM, an exchange regulated market operated by the London Stock Exchange
<b>“AIM Rules”</b>	AIM Rules for Companies and the AIM Rules for Nominated Advisers
<b>“AIM Rules for Companies”</b>	rules for AIM companies, as published by the London Stock Exchange from time to time
<b>“AIM Rules for Nominated Advisers”</b>	rules for the nominated advisers to AIM companies, as published by the London Stock Exchange from time to time
<b>“Articles”</b>	articles of association of the Company in force as at the date of this document
<b>“Au\$”</b>	Australian dollars, the lawful currency of Australia
<b>“Bishop”</b>	Bishop Technology Group Limited, a company incorporated in Australia under registered number ABN 95 002 954 672
<b>“Bishop Technology Group”</b>	Bishop and its subsidiary undertakings at the date of this document, details of which are set out in paragraph 9 of Part VI of this document
<b>“Board” or “Directors”</b>	existing directors of Transense, being Peter Woods, James Perry, Howard Pearl, Antony Baldry, Graham Eves, Rodney Westhead and Ray Lohr
<b>“Combined Code”</b>	combined code on corporate governance issued by the Financial Reporting Council, as amended from time to time
<b>“Company” or “Transense”</b>	Transense Technologies plc, a company incorporated in England and Wales under registered number 1885075
<b>“Consideration Shares”</b>	37,535,553 new Ordinary Shares to be issued to the Vendors pursuant to the Acquisition Agreement

<b>“CREST”</b>	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear UK & Ireland is the operator
<b>“CREST Regulations”</b>	Uncertificated Securities Regulations 2001 (SI 2001/3755) (as amended)
<b>“€”</b>	Euros, the unit of money used in all European Union countries which have adopted the single European currency unit
<b>“EIS”</b>	Enterprise Investment Scheme
<b>“Enlarged Group”</b>	Group as enlarged by the acquisition of Bishop
<b>“Enlarged Share Capital”</b>	ordinary share capital of the Company immediately following Second Admission, as enlarged by the issue of the New Ordinary Shares
<b>“EPAS”</b>	electric power assisted steering
<b>“Euroclear UK &amp; Ireland”</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>“Existing Ordinary Shares”</b>	existing Ordinary Shares in issue at the date of this document
<b>“First Admission”</b>	re-admission of the Existing Ordinary Shares and the admission of the New EIS Shares to trading on AIM becoming effective in accordance with the AIM Rules for Companies
<b>“First Placing”</b>	proposed placing of New EIS Shares pursuant to the Placing Agreement
<b>“Form of Proxy”</b>	form of proxy accompanying this document for use by Shareholders in connection with the GM
<b>“FSA”</b>	Financial Services Authority, the regulator under the FSMA
<b>“FSMA”</b>	Financial Services and Markets Act 2000, as amended
<b>“General Meeting” or “GM”</b>	general meeting of the Company to be held at 11.00 a.m. on 16 November 2007, at the offices of Travers Smith, 10 Snow Hill, London, EC1A 2AL, notice of which is set out at the end of this document
<b>“Group”</b>	Transense and its subsidiary undertakings at the date of this document, details of which are set out in paragraph 9 of Part VI of this document
<b>“Hertz” or (“Hz”)</b>	a unit of frequency of one cycle per second
<b>“HMRC”</b>	Her Majesty’s Revenue and Customs
<b>“HPAS”</b>	hydraulic power assisted steering
<b>“IP”</b>	intellectual property
<b>“kHz”</b>	one thousand Hertz
<b>“Lock-in Agreement”</b>	conditional agreement dated 22 October 2007 between Noble, the Company, the Directors and Bruce Grey pursuant to which the Directors and Bruce Grey have undertaken, <i>inter alia</i> , not to dispose of their Ordinary Shares (subject to limited exceptions) for a period of 12 months following First Admission, summary details of which are set out in paragraph 12 of Part VI of this document



<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“MHz”</b>	one million Hertz
<b>“New Ordinary Shares”</b>	62,299,445 new Ordinary Shares to be issued pursuant to the Acquisition Agreement and the Placing, being the Consideration Shares and the Placing Shares (assuming all the Placing Shares are placed)
<b>“New EIS Shares”</b>	up to 130,435 new Ordinary Shares which are to be placed with certain qualifying investors under the EIS
<b>“Noble”</b>	Noble & Company Limited, which is authorised and regulated by the Financial Services Authority
<b>“Non-EIS Shares”</b>	up to 24,633,457 new Ordinary Shares which are to be placed other than the New EIS Shares
<b>“OEM”</b>	original equipment manufacturer
<b>“Official List”</b>	Official List of the Financial Services Authority
<b>“Ordinary Shares”</b>	ordinary shares of 10p each in the capital of the Company
<b>“Placing”</b>	placing, by Noble on behalf of the Company, of the Placing Shares at the Placing Price pursuant to the Placing Agreement
<b>“Placing Agreement”</b>	conditional agreement dated 22 October 2007, between the Company and Noble relating to the Placing, summary details of which are set out in paragraph 12 of Part VI of this document
<b>“Placing Price”</b>	23 pence per Placing Share
<b>“Placing Shares”</b>	New EIS Shares and the Non-EIS Shares
<b>“Proposed Directors”</b>	Bruce Grey and Tim Renfrey, being proposed directors of Transense
<b>“Prospectus Rules”</b>	the prospectus rules made by the FSA under Part VI of the FSMA
<b>“Resolution”</b>	the resolution set out in the notice of General Meeting
<b>“SAW”</b>	surface acoustic wave
<b>“Second Admission”</b>	admission of the Non-EIS Shares and the Consideration Shares to trading on AIM becoming effective in accordance with the AIM Rules for Companies
<b>“Second Placing”</b>	proposed placing of Non-EIS Shares pursuant to the Placing Agreement
<b>“Shareholders”</b>	holders of Ordinary Shares
<b>“Share Option Schemes”</b>	the Transense Technologies plc 2005 Unapproved Discretionary Share Option Scheme, the Transense Technologies plc 2004 Enterprise Management Incentive Share Option Plan and the Transense Technologies plc 2005 Enterprise Management Incentive Share Option Plan, further details of which are set out in paragraphs 4.1 to 4.3 of Part VI of this document
<b>“TPMS”</b>	tyre pressure monitoring system

**“US\$”**

US dollars, the lawful currency of the United States of America

**“Vendors”**

Lawrence Bishop, John Baxter, Klaus Roeske, Daimler A.G.,  
Glory B Pty Ltd as trustee of the Bishop Family Trust and Bruce  
Grey

## KEY INFORMATION

*The following information is derived from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole of this document and not rely solely on the information set out below.*

### **Transense**

Transense is a UK-based technology licensing company owning 20 patent families. It has an innovative portfolio of sensor technologies designed for the automotive industry. Founded in 1991, Transense develops non-contact, batteryless sensors and electronic interrogation systems for measuring pressure and temperature, and non-contact systems for measuring torque using the Company's patented Surface Acoustic Wave ("SAW") technology.

### **Bishop**

Bishop is a leading global technology licensing and know-how company serving the automotive industry. This historically family run business, founded in 1975, has its headquarters in Australia and employs 115 people around the globe (excluding people employed in its joint ventures). Bishop supplies intellectual property, tooling, special purpose machines and components to a number of automotive Original Equipment Manufacturers ("OEMs") and tier one suppliers globally. Specifically, Bishop is focused on the steering gear industry for passenger motor vehicles, with its technology being incorporated in approximately 24 per cent. of all motor vehicles manufactured annually around the world. Bishop, through its joint ventures, is the only independent global steering rack supplier.

### **The Acquisition**

Following the development of the Company's products over the last few years, the Board is now seeking to transform Transense into an IP led, integrated global automotive technology group. The Directors and the Proposed Directors believe that the Acquisition and Placing will strengthen the existing management team, put the Enlarged Group onto a better financial footing and enable technology synergies between Transense and Bishop to be leveraged into the Enlarged Group's target markets. The Directors have known of and followed the progress of Bishop for over 10 years.

The Directors and the Proposed Directors also believe that the Acquisition (through Bishop's joint ventures) will provide access to synergistic and profitable products and key relationships with OEMs and the top tier one, two and three automotive component suppliers, thereby enhancing Transense's position in the automotive component sector.

### **The Placing**

The net proceeds of the Placing will be used as working capital for Transense to accelerate its commercialisation process, assist in targeting major tier one and two automotive component manufacturers and fund the continuing development of SAW technology. The net proceeds will also be used as working capital for Bishop to reduce long term debt and assist in funding for a high speed warm forge facility in Asia. These net proceeds of the Placing will be used to provide the Enlarged Group with sufficient working capital to enable it to implement its organic growth strategy.

### **Risk factors**

Your attention is drawn to the risk factors set out in Part I of this document.

# PART I

## RISK FACTORS

**The attention of potential investors is drawn to the fact that ownership of shares in the Company involves a variety of risks. The investment offered in this document may not be suitable for all of its recipients. The summary of risk factors is not intended to be exhaustive. An investment in the Company is only suitable for investors who are capable of calculating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. All Shareholders and potential investors should carefully consider the entire contents of this document including, but not limited to, the factors described below before deciding whether or not to vote in favour of the Resolution or to invest in the Company. If you are in any doubt about what action you should take, you should immediately consult a professional adviser authorised under the FSMA who specialises in advising on the acquisition of shares and other securities.**

### **Risks relating to the Enlarged Group's business**

#### ***New product development***

The Company's operating plan assumes that its product roadmap will be delivered on time. There is a risk that certain elements of this roadmap could be delayed as they rely on leading edge technology developments being completed on time and to specification. The Enlarged Group may encounter delays and incur additional research and development costs over and above those anticipated or allowed for by the Directors and Proposed Directors. If the Company is unable to deliver its product roadmap on time and on budget, the Company may require further financing.

#### ***Volatility of operating results***

Operating results may fluctuate, which makes the Company's results difficult to predict and could cause its results to fall short of expectations. The Enlarged Group's operating results may fluctuate as a result of a number of factors, many of which are outside its control. Factors that may affect the Enlarged Group's operating results include increased competition; an increased level of costs as it continues to expand its product range; increased employment costs as the markets in which the Enlarged Group operates improve; slower than expected take-up by its customers of its products and increased costs of raw materials. It is possible that, in the future, the Enlarged Group's operating results will fall below the expectations of securities analysts or investors. If this occurs, the trading price of the Company's shares may decline significantly.

#### ***Requirement for additional capital***

The Enlarged Group may be required to conduct further fundraising exercises in the future in order to develop its businesses and sustain cash resources. The Enlarged Group's capital requirements will depend on numerous factors and most notably its revenue streams from new products and emerging markets. The Directors and the Proposed Directors believe that following the Placing, the Company will have sufficient capital in place for at least the next 12 months. However, if its capital requirements vary materially from its plans, the Enlarged Group may require further financing in addition to the amounts raised in the Placing. Any additional equity financing may be dilutive to Shareholders' shareholdings and debt financing, if available, may place restrictions on the Enlarged Group's financing and operating activities. If the Enlarged Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

#### ***Reliance on senior management and other personnel***

The Company's future success depends in a large part upon the continued service of a number of key members of its senior management team. Whilst the Company currently has key man insurance policies over a number of employees including two board members (Jim Perry and Ray Lohr), the loss of any of its management or key personnel could seriously harm its businesses. The competition in the Company's

industry for appropriately skilled employees is intense. The Company's continued ability to compete effectively depends on its ability to attract new employees and to retain and motivate its existing employees.

### ***Technology risks***

The technology used in the Enlarged Group's products is still evolving and is highly complex and may change rapidly. Research and development by other companies may render the Enlarged Group's products in development obsolete.

Undetected defects could increase costs or reduce revenues. The Enlarged Group's products are complex and may contain undetected defects when first introduced and problems may be discovered from time to time in existing, new or enhanced products.

The Company's success will depend on market acceptance of the Enlarged Group's products and there can be no guarantee that this acceptance will be forthcoming. Market opportunities targeted by the Enlarged Group may change and this could lead to an adverse effect upon its revenue and earnings.

### ***Legislative change***

The markets in which the Enlarged Group operates are subject to regulatory and legislative change. There is no assurance that such changes will not affect the viability of the Enlarged Group's business and prospects.

### ***Major integration issues***

The Enlarged Group is a global business with operations in Europe, North America, Asia and Australia. Unforeseen difficulties in the integration of the Bishop Technology Group following the Acquisition may result in increased expense, increased demand on management time and loss of customers. For these reasons, the Company may not realise all of the anticipated benefits of the Acquisition, either in a timely manner, or at all, and this may result in a material adverse impact on the Enlarged Group.

### ***Dependent upon sales to certain customers***

The Enlarged Group's core strategy is to license its products to large automotive manufacturers for manufacturing, subsequent marketing and, in the case of Transense, additional prototype development. Consequently, the Enlarged Group is reliant on securing and maintaining relationships with such companies. There can be no assurance that the Enlarged Group will be able to enter into licences or ensure that relationships will satisfactorily continue if such relationships are entered into. If one of the Enlarged Group's major customers were to delay market launch or cancel production of a licensed product, revenues would be adversely affected.

### ***Intellectual property***

The success of the Enlarged Group depends to some extent on its ability to protect its intellectual property and trade secrets and to avoid the risk of infringing intellectual property rights owned by others. Despite prudent steps taken by the Enlarged Group to protect its proprietary rights, third parties may attempt to copy aspects of its products and seek to use information that the Enlarged Group regards as proprietary. Competitors may also independently develop similar technologies or seek to recruit the Enlarged Group's employees who have had access to proprietary technology, processes or operations of the Enlarged Group. There is a risk that the Enlarged Group's means of protecting its intellectual property rights may not be adequate and weaknesses or failures in this area could adversely affect the Enlarged Group's business.

The Enlarged Group cannot be certain that the steps it has taken will prevent unauthorised use of its technology, particularly in foreign countries where the laws may not protect its proprietary rights as fully as do the laws of England and Wales.

The Enlarged Group cannot be certain that patents will be issued as a result of its pending applications nor can the Enlarged Group be certain that any issued patents will provide adequate protection or provide the means to prevent third parties from selling products which compete with the Enlarged Group's products. There is a significant risk that patents issued to the Enlarged Group may be circumvented or challenged or

declared invalid or unenforceable. The Enlarged Group also cannot be certain that others will not develop effective competing technologies of their own.

### ***Competition***

Products are available which compete directly or indirectly with the Enlarged Group's products. New technology, changing commercial circumstances and new entrants to the markets in which the Enlarged Group operates may adversely affect its business. Many of the companies operating in the same sector as the Enlarged Group are significantly larger and have significantly greater financial resources. These factors could lead to an adverse effect upon the Enlarged Group's revenue and earnings.

### ***Foreign exchange risk***

Fluctuations in exchange rates between currencies in which members of the Enlarged Group operate relative to pounds sterling may cause fluctuations in its financial results. The Enlarged Group cannot predict the effect of exchange rate fluctuations upon future operating results and there can be no assurance that exchange rate fluctuations will not have a material adverse effect on its businesses, operating results or financial conditions.

### ***EIS status***

On the basis of the information provided to date, HMRC has given advance assurance that the Company is a qualifying company under the EIS legislation. Whilst the Directors and the Proposed Directors intend, so far as possible, to conduct the activities of the Enlarged Group in such a way as to allow it to maintain its status as a qualifying EIS investment, circumstances may arise where the Directors and the Proposed Directors believe that the interests of the Company are not best served by acting in a way that preserves the EIS relief (including capital gains tax) qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to secure or preserve any such relief or status claimed by any Shareholder. Neither the Company, the Directors nor the Proposed Directors give any warranties or undertakings that this status will not be withdrawn whether before or after the First Placing. Should the law regarding EIS treatment change, then any reliefs or qualifying status previously obtained may be lost.

### ***Contracts***

There is no guarantee that any of the contracts the Directors and Proposed Directors anticipate signing with providers, advisers, suppliers, customers or commercial partners will be entered into despite initial indications from these bodies that this will be the case and that if contracts are entered into that they will generate significant revenue. The Enlarged Group's operating plan and future results could be hindered if this were to be the case and replacement customers and suppliers of equal ability could not be found at the same cost or on the same terms.

### ***Joint ventures***

Bishop is involved in two joint venture arrangements. Although Bishop has good working relationships with its joint venture partners, there can be no assurance that the Enlarged Group can continue these relationships and if one or both of the joint venture arrangements are terminated, income would be adversely affected.

### ***Product liability***

The activities of the Bishop Technology Group expose it to potential product liability risks that are inherent in the development and manufacture of parts for the automotive industry. While no successful product liability claims have ever been made against the Bishop Technology Group, it is insured for potential product liability claims and any product liability claim brought against the Bishop Technology Group, with or without merit, could result in the increase in the Bishop Technology Group's product liability insurance rates or the inability to secure coverage in the future. In addition, the Bishop Technology Group would have to pay any amount awarded by a court or agreed in a settlement in excess of its liability limit.

## **Risks relating to the Placing**

### ***AIM***

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser authorised under the FSMA who specialises in advising on the acquisition of shares and other securities. The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than the original amount subscribed pursuant to the Placing and could lose their entire investment. The market value of the Ordinary Shares may not necessarily reflect the underlying net asset value of the Enlarged Group.

### ***Share price effect of sales of Ordinary Shares***

The market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares by the Directors and certain of the Vendors following the end of the lock-in and orderly marketing period pursuant to the Lock-in Agreement and the Acquisition Agreement (further details of which are set out in paragraphs 12 and 14 of Part VI of this document respectively) or the perception that such sales could occur, or otherwise.

### ***The market price of the Ordinary Shares may fluctuate significantly***

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the Ordinary Shares, like the share price of many publicly traded technology companies, may prove to be highly volatile. The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, some of which are beyond Transense's control, including: variations in operating results in Transense's reporting periods; changes in financial estimates by securities analysts; changes in market valuation of similar companies; announcements by Transense of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; loss of a major customer; additions or departures of key personnel; any shortfall in turnover or net profit or any increase in losses from levels expected by securities analysts; future issues or sales of Ordinary Shares; and stock market price and volume fluctuations, which are particularly common with respect to the securities of technology companies. Any of these events could result in a material decline in the price of the Ordinary Shares.

### ***Forward looking statements***

This document contains forward looking statements which are based on the Directors' and Proposed Directors' current expectations and assumptions, including without limitation, statements containing the words "believes", "anticipates", "expects" and similar expressions. Such forward looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the other "Risk Factors" contained in this Part I of this document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. Each forward looking statement speaks only as of the date of the particular statement. Except as required by the rules of the Financial Services Authority, the London Stock Exchange, AIM or by law, the Company expressly disclaims any obligation to update any such forward looking statements in this document to reflect future events or developments.

**AN INVESTMENT IN TRANSENSE MAY NOT BE SUITABLE FOR ALL RECIPIENTS OF THIS DOCUMENT. POTENTIAL INVESTORS ARE ACCORDINGLY ADVISED TO CONSULT A PERSON AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED, WHO SPECIALISES IN INVESTMENTS OF THIS KIND BEFORE MAKING A DECISION.**

## PART II

# LETTER FROM THE CHAIRMAN OF TRANSENSE TECHNOLOGIES PLC

## **Transense Technologies plc**

*(Incorporated in England & Wales under the Companies Act 1985 with registered no. 1885075)*

*Directors:*

Peter Woods *(Non-Executive Chairman)*  
James Perry *(Chief Executive Officer)*  
Howard Pearl *(Finance Director)*  
Graham Eves *(Commercial Director)*  
Ray Lohr *(Technical Director)*  
Rodney Westhead *(Non-Executive Director)*  
Antony Baldry *(Non-Executive Director)*

*Registered office:*

36 Elder Street  
London  
E1 6BT

22 October 2007

*To the holders of Ordinary Shares and, for information only, to holders of options over Ordinary Shares granted under the Share Option Schemes*

Dear Shareholder,

**Proposed Acquisition of Bishop Technology Group Limited**  
**Placing of up to 24,763,892 New Ordinary Shares at 23 pence per share**  
**Re-admission to trading on AIM**  
**Proposed adoption of the 2007 Unapproved Scheme**  
**and**  
**Notice of GM**

### **1. Introduction**

Your Board is pleased to inform you that the Company has today announced that it has conditionally agreed to acquire the entire issued share capital of Bishop. Bishop is a privately owned, Australian-based company which is a global technology licensing and know-how company serving the automotive industry. Bishop supplies IP, tooling, special purpose machines and components to automotive manufacturers around the world. The consideration for the Acquisition is Au\$19.7 million to be satisfied by the issue of 37,535,553 Consideration Shares to the Vendors at a price of 23 pence per share.

In order to provide the Enlarged Group with sufficient working capital to enable it to implement its strategy, the Board is also proposing to raise up to £5.7 million (£4.4 million after expenses) by way of the Placing of 24,763,892 Ordinary Shares at 23 pence per Placing Share. The Placing has been arranged by Noble. The Placing is not being underwritten but has been pre-placed with institutional and other investors.

The Acquisition constitutes a reverse takeover under the AIM Rules for Companies and is therefore subject to the approval of Shareholders. Such approval is being sought at the General Meeting which has been convened for 16 November 2007. Shareholders who, in aggregate, own 8,444,712 Ordinary Shares representing 14.8 per cent. of the Existing Ordinary Shares have already irrevocably undertaken to vote in favour of the Resolution to be proposed at the GM.

Trading in Ordinary Shares was suspended on 11 October 2007 following the Board's announcement regarding the acquisition and will resume on the publication of this document. If the Resolution is duly passed at the GM and the other conditions set out in the Placing Agreement are met, the dealing facility for the Existing Ordinary Shares will be cancelled. Applications will be made by the Company for the Existing Ordinary Shares to be re-admitted and for the New Ordinary Shares to be admitted to trading on AIM.

The Directors recognise the importance of ensuring that employees are well motivated and identify closely with the success of the Company and that the success of the Enlarged Group will be enhanced by the



implementation of appropriate share incentive arrangements. Accordingly, subject to Shareholder approval at the GM, the Company has adopted the 2007 Unapproved Scheme. Further details of the 2007 Unapproved Scheme are set out in paragraph 4.4 of Part VI of this document.

The purpose of this document is to provide you with background to and information regarding the Acquisition, the Enlarged Group and the Placing, to explain why the Directors consider the Acquisition to be in the best interests of the Company and its Shareholders as a whole and to recommend that you vote in favour of the Resolution to approve the Acquisition and to adopt the 2007 Unapproved Scheme at the GM. Notice of the GM is set out on page 152 of this document.

## **2. Reasons for the Acquisition**

Following the development of the Company's products over the last few years, the Board is now seeking to transform Transense into an IP led, integrated global automotive technology group. The Directors and the Proposed Directors believe that the Acquisition will strengthen the existing management team, put the Enlarged Group onto a better financial footing and enable technology synergies between Transense and Bishop to be leveraged into the Enlarged Group's target markets. The Directors have known of and followed the progress of Bishop for over 10 years.

The Directors and the Proposed Directors also believe that the Acquisition (through Bishop's joint ventures) will provide access to synergistic and profitable products and key relationships with Original Equipment Manufacturers ("OEMs") and the top tier one, two and three automotive component suppliers, thereby enhancing Transense's position in the automotive component sector.

Following the Acquisition the Company intends to change its name to better reflect the business of the Enlarged Group.

## **3. Information on Transense**

Transense is a UK-based technology licensing company owning 20 patent families. It has an innovative portfolio of sensor technologies designed for the automotive industry. Founded in 1991, Transense develops non-contact, batteryless sensors and electronic interrogation systems for measuring pressure and temperature, and non-contact systems for measuring torque using the Company's patented Surface Acoustic Wave ("SAW") technology.

### **SAW technology**

A SAW is an acoustic wave that travels along the surface of an elastic material. This kind of wave is commonly used in piezoelectric devices in electronic circuits. These piezoelectric devices will convert electrical pulses into mechanical vibrations and, conversely, mechanical vibrations into electrical pulses. A SAW resonant sensor is designed to resonate at a certain frequency, but if its piezoelectric substrate distorts through heat, mechanical stress or pressure, it will resonate at a different frequency. When a radio wave is directed at this device to interrogate its properties, it will, in the absence of any external forces, reflect (back scatter) a wave of the same frequency to the source. If, however, the device is subject to external force, e.g. heat or stress, the reflected wave will be of a different frequency and that change in frequency can be measured. The Company has developed a way of measuring the difference in frequency between these waves in a range of sensors, which can be used to accurately calculate torque, temperature and pressure. In order to read this change in frequency, the Company has developed associated interrogation electronics and software. These SAW devices are fabricated utilising common processes employed in the manufacture of silicon integrated circuits.

### **Revenue model**

The automotive industry is structured with OEMs producing vehicles in final form ready for the consumer market. OEMs are supplied by tier one manufacturers, who provide entire systems, which are in turn made up of the components produced by tier two suppliers.

Transense employs an IP licensing model which allows the Company to retain its IP and know-how. Transense's licences fall into two categories: supply licences and applications licences. Transense is focused

on research and development to create IP and know-how to generate revenues from licence fees, implementation support and royalties.

Transense's revenue model capitalises on the structure of the automotive industry by ensuring that through the supply licences and applications licences, revenues and royalties are generated at each level of the supply chain.

### **Supply licences**

Transense has entered into a number of licences permitting the development, manufacture and supply of the various components that make up the tiers of the SAW sensor system supply chain. Under the Company's licensing model, no one company possesses all Transense's IP. The Company has entered into the following licences with component manufacturers involved in the different stages of the SAW sensor system supply chain.

- **SAW devices:** TAI-SAW Technology Co. Ltd ("TAI-SAW"), a company based in Taiwan with a subsidiary near Shanghai in China, is now Transense's main licensee for the manufacturing of SAW devices. A licence for tyre pressure monitoring system ("TPMS") SAW devices was granted in October 2002, which was followed by a licence to manufacture torque SAW devices in November 2006. TAI-SAW is a rapidly growing, high quality SAW supplier with full automotive quality approvals for the US and large customers such as Hitachi in Japan. Transense and TAI-SAW are also discussing the packaging of SAW devices. These licences are non-exclusive. Negotiations are under way with another SAW manufacturer.
- **Packages:** The SAW device needs to be packaged to make it into a sensor. Honeywell International Inc's ("Honeywell's") first licence, granted in April 2002, was to package TPMS sensors. The second Honeywell licence, granted in November 2004, was to package torque sensors for automotive applications and the third licence, granted in December 2006, was to package pressure sensors for non-automotive applications. Honeywell is one of the largest sensor manufacturers in the world. These licences are non-exclusive.

Transense has just announced a patent administration agreement with the German company, Schott AG ("Schott"), part of the Carl Zeiss Foundation and one of the leading packaging suppliers and an approved supplier to Honeywell. This covers the filing of a joint patent and the grant of licences to Schott for manufacturing rights in return for a royalty and an undertaking to restrict the supply of SAW packages to Transense's licensees.

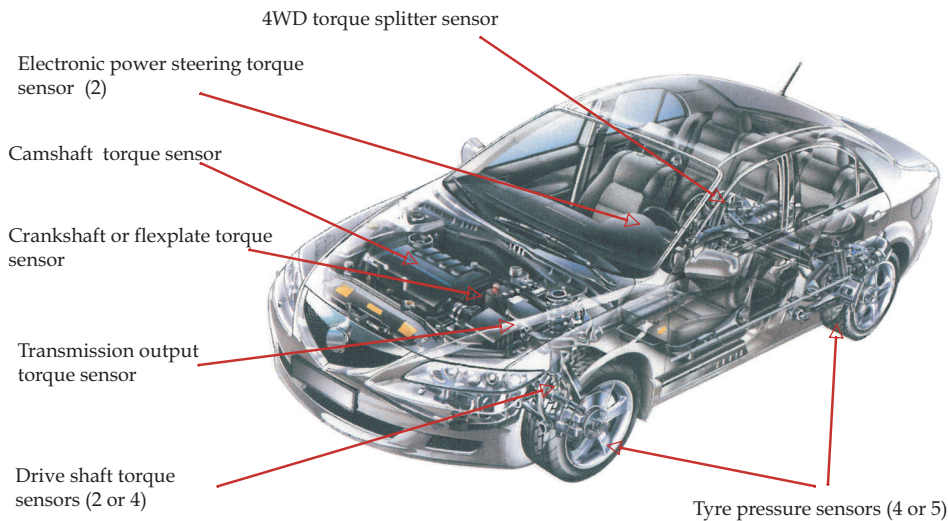
- **Digital Signal Processor ("DSP") chips:** The DSP is an important part of the SAW sensor technology as it is the means of communication with the SAW sensor. After several years working together, Transense signed a technical collaboration agreement with Texas Instruments, a world leader in DSPs, in July 2006.
- **Application Specific Integration Circuit ("ASIC"):** The ASIC is the key enabler of the SAW system that condenses the function of discrete radio frequency components into a compact key device. Although there are several large ASIC manufacturers, few are automotive qualified and only Transense's licensee makes this complicated radio frequency ASIC. After working with a number of large ASIC manufacturers, a licence was signed in November 2003 with Microelectronic Integrated System NV ("Melexis"), a Belgian company with operations around the world, to manufacture ASICs. The licence also provides for the supply of DSP chips which may be integrated into the ASIC. Melexis supplies components to most vehicle manufacturers. This agreement is exclusive until a certain quantity is reached to enable Melexis to recover its large investment in the development, after which it automatically becomes non-exclusive.
- **Discrete systems:** A supplementary, non-exclusive licence was signed with Société de Technologie Michelin ("Michelin") in September 2004, to enable Michelin to use discrete components instead of ASICs, in certain TPMS interrogation equipment.

- **Integrated systems:** The Honeywell November 2004 licence granted rights to produce integrated systems for TPMS interrogation. This is non-exclusive.

## Applications

The Company is currently targeting a number of immediate applications for its SAW sensor systems, namely TPMS, torque measurement systems, including EPAS systems and powertrain measurement systems for the automotive industry, as well as more recently, pressure sensors for non-automotive applications.

If four key sensor applications were SAW enabled, for example TPMS, EPAS, flexplate and driveshaft, then typically up to 15 SAW sensors per vehicle would be required as shown in the diagram below:



Key strengths of Transense's products are:

- Sensor systems are batteryless powered by interrogating radio waves at MHz frequencies
- Signal transmission is wireless and therefore there are no contacts to wear out
- Interrogation can be continuous, up to 4,000 times a second, or periodic, as required
- Sensors are small, typically 11mm x 3mm in diameter, and light weight, less than 2 grams, up to 33 grams less than competitors
- Sensors are made from environmentally friendly materials such as steel and quartz and combined with the absence of batteries (lithium or otherwise), present no disposal hazards
- Sensors are robust and tests have demonstrated durability under extreme heat and vibration conditions
- Piezoelectric SAW resonators are fabricated using standard high volume manufacturing processes developed for SAW filters, as used in mobile phones
- Applications are typically environmentally beneficial facilitating improved fuel consumption and component longevity by better control of engines, transmissions and tyre pressures, meeting the requests of current vehicle manufacturers.

## Tyre Pressure Monitoring System ("TPMS")

Transense has developed a TPMS which remotely monitors the tyre pressure within a tyre on a vehicle and alerts a user when the pressure within the tyre falls below or rises above certain parameters. Sensors can be embedded within the tyre itself or mounted on the back of the valve to measure directly the air pressure and temperature in the tyre.

Measurements can be obtained using either an on-board monitoring system or an external monitoring system. Using an on-board monitoring system, a signal is passed from the tyre pressure sensor to a small antenna situated within the wheel arch which updates a main control system to alert the driver to a change in tyre pressure. External monitoring devices can also be used to identify the change in tyre pressure. The

Company has provided technology and prototypes for two external systems: handheld transponders and kerbside transponders.

### ***Market***

There are two principal reasons for using tyre pressure sensors: safety and cost savings. Following a series of fatal road accidents caused by tyre failures in 2000, the US National Highway Traffic Safety Administration (“NHTSA”) put in place the Transportation Recall Enhancement Accountability and Documentation (“TREAD”) Act, which mandated that every new car produced in the United States from September 2007 be equipped with a basic TPMS which will warn the driver when tyre pressure(s) vary by 25 per cent. from their recommended level. Car manufacturers are therefore under extreme pressure to make purchasing decisions on TPMS in order to comply with the TREAD Act. The second reason is that by having tyres under-inflated by 25 per cent. or more, fuel economy can be decreased by 3-4 per cent. and tyre life reduced by 40 per cent., demonstrating a large cost saving in having correctly inflated tyres.

As well as complying with new laws and regulations concerning safety and the environment, car manufacturers need to make their offerings more attractive, encourage customer loyalty and boost their profits through product differentiation and faster next generation model development. Tyres are key to satisfying these requirements.

According to Michelin, the global truck tyre market currently represents 166 million tyres, of which 85 per cent. are replacement tyres. This is a 3 per cent. growth on the truck tyre market in 2006. Similarly the passenger car tyre market and light truck tyre market, which currently consist of 1.1 billion tyres, has grown 2.7 per cent. annually and is expected to reach 1.4 billion by 2016. This represents a vast market for Transense of over 1.2 billion tyres today. Michelin’s penetration of the US truck market with Transense’s TPMS is currently very small; however Michelin’s share of the US truck tyre market is approximately 20 per cent.

The Directors and Proposed Directors believe that fleet operators could make a significant cost saving through the better management of tyres enabled with TPMS.

### ***Competitors in TPMS***

Indirect tyre pressure monitoring systems utilising anti-lock braking system wheel speed sensors attempt to calculate changes in tyre pressures using the changes in rolling radius of the tyres. When a tyre is deflated, its rolling radius is decreased, resulting in it spinning faster to cover the same distance. This increase in wheel rotation speed is measured and an alert raised. Typically, these systems need to be active for 10–15 minutes to calculate the average difference between wheel speeds as the wheels on a vehicle constantly revolve at different speeds due to the changes in direction of the vehicle and the possibilities of wheel slip on surfaces such as snow or mud. In addition, slow pressure loss in all tyres due to diffusion may not be detected. The modest accuracy of indirect systems contributed to the relatively coarse (-25 per cent.) lower limit issued by NHTSA for the TREAD Act.

There are at present several million first generation direct active tyre pressure monitoring systems in operation, with the market leader being Schrader. Siemens VDO, Beru/Borg Warner, Johnson Controls, EnTire and Lear Corporation are also significant competitors. Competitors typically utilise on-valve sensors, weighing around 35 grams and incorporating pressure transducer, electronics and energy storage (battery) sufficient for 10 years operational life and feature improved accuracy over indirect systems.

Transense’s TPMS system, characterised as direct passive, includes intrinsically low cost, lightweight sensors, (less than a tenth of the weight of rival active sensors) with various deployment options (in-wheel, on-valve, on-rubber), and significantly, does not require batteries. Correct pressure indication is achieved within seconds of switch-on (unlike indirect systems) and is updated continuously (unlike direct active systems, which only update every few minutes to conserve battery life).

At present, none of the major motor manufacturers have yet specified Transense TPMS technology to their tier one suppliers which, as a batteryless sensor, is a second generation successor to the current generation of battery powered sensors. However, the Directors and Proposed Directors believe that because Transense’s

TPMS is batteryless and has a low manufacturing cost and there is currently no equivalent SAW system available, Transense has a significant competitive advantage.

### ***TPMS IP/Patents***

Transense has filed a number of patents covering TPMS including: interrogation of SAW devices, pressure monitor incorporating SAW devices, SAW device with integral patch antenna, valve antenna, interrogation method for passive sensor monitoring system and SAW pressure and temperature sensor using part of the substrate as a diaphragm. Patents have been filed in Europe, US, China, Japan and in specific instances are extended to further areas, such as Taiwan.

### ***TPMS licences***

The Company currently has in place four TPMS licences:

- **Michelin:** A licence was signed with Michelin in June 2001, which granted Michelin exclusivity where the SAW sensor is embedded in, or attached to, the rubber tyre. This was varied in May 2007, to enable Transense to pursue interest from other parties for passenger vehicle applications. The 2001 agreement also granted non-exclusive rights for on-the-wheel and behind-the-valve TPMS. Transense assigned its 'Drive-by' patent to Michelin and, by a supplemental agreement in July 2004, Michelin was licensed technology for this application.

In November 2006, Michelin launched eTire II TPMS to the North American truck market incorporating Transense's technology. Michelin's eTire II TPMS improves vehicle safety, tyre and fuel consumption. Honeywell supplies Michelin with all the sensor systems, hand-held and drive-by readers.

- **Honeywell:** Under the November 2004 agreement, Honeywell is licensed to manufacture Transense's TPMS sensors and systems for automotive applications. Honeywell has been working closely with Michelin to industrialise Transense's technology for the North American truck market and has a dedicated production facility in its Intellisense plant in China.
- **Lear Corporation ("Lear"):** A non-exclusive TPMS agreement was signed in September 2006, enabling Lear and Transense to work together to develop an industrialisation process for passenger cars and trucks worldwide. Lear is currently a supplier of battery TPMS. SAW systems have been installed in two demonstration vehicles in North America. Initial funded development work has been undertaken and, pending the outcome of a project review in October, a further licence may be granted. Meanwhile, Transense is progressing developments directly with the targeted vehicle manufacturers.
- **Stack Limited ("Stack"):** Stack is a specialist supplier to the motorsport industry which has recently been acquired by a US tier one/aftermarket group, Auto Meter. The licence, signed in October 2004, enables Stack to supply motorsport and low volume requirements, taking the sensor from Honeywell. A number of Formula One, motor cycle and racing applications are being developed.

Transense has also established key relationships within the automotive industry. These relationships include TST, General Motors, Ford, Chrysler and BMW.

### ***Intelliband***

Intelliband is a safety band for road wheels integrated with Transense's TPMS sensor. Installing a basic safety band to an existing wheel provides any tyre with run flat capabilities by covering the circumferential wheel well. This enables the tyre to remain on the rim should it deflate at speed. By fitting Transense's tiny TPMS sensor to the band, the active safety of the band and passive safety of the sensor are combined into a single product. The application is pertinent to the after-market and especially to vehicles entrusted with valuable cargoes be they human or material. Licences are currently in negotiation.

### **Torque measurement sensors**

Torque sensors use SAW technology to measure the mechanical strains due to torque and temperature and hence calculate the temperature compensated torque in specific automotive applications. The Company's sensors are being offered into two areas, electric power assisted steering and powertrain.

### ***Electric power assisted steering***

Transense's SAW sensors measure torque in the steering column, which is a vital input to enable the EPAS control system to function correctly. Unlike existing EPAS torque sensors, the SAW approach does not require a low stiffness 'torsion bar', over which to measure the twist, coupled with mechanical over-torque protection. Instead, the SAW sensor is stiff and can be a simple modification of a section of the steering column. Compared with conventional hydraulic power assisted steering ("HPAS") systems, in which the engine driven power assisted steering pump is always consuming power, EPAS systems only take power when needed (at parking speeds primarily) from the vehicle battery. This results in improved fuel economy (2-3 per cent. savings) and therefore cost savings, reduced weight and easier installation.

### ***Powertrain***

In a typical modern vehicle's Engine Control Unit ("ECU"), torque is inferred from in-vehicle sensors measuring air and fuel flow, temperature and ignition timing in conjunction with 'look-up tables' derived from dynamometer tests of sample engines by the vehicle manufacturer. The problems associated with this approach are that, due to manufacturing tolerances, engines are not identical and they change their characteristics over their service life. Accurate real-time torque measurement can improve engine control, resulting in better fuel efficiency and can also provide for smoother ratio changes within automatic transmissions improving NVH (noise, vibration and harshness) and perceived quality. Torque measurement in driveshafts and torque splitters enables better control of actual torque to the individual road wheels for stability and traction control in four wheel drive vehicles. Specific applications of Transense's SAW torque sensors ("Powertrain") include:

- **Flexplate:** situated between the crankshaft and torque convertor, the flexplate sensor provides direct measurement of engine output torque for engine and transmission control
- **Transmission output shaft:** provides real time torque information to optimise the control of automatic transmissions
- **Torque splitter:** enables optimised torque distribution between axles in 4WD applications
- **Driveshaft:** individual sensors enable torque vectoring for improved stability control during cornering

### ***Market***

Forecasts from industry analysts CSM Worldwide suggest that light vehicle production will grow from 62.2 million vehicles in 2005 to 77.6 million globally by 2012, with aggressive growth forecast in emerging markets. While industry growth will inevitably play a part, the Directors and Proposed Directors believe it will be less important to the Company than the rate at which the automotive industry adopts innovative new technologies.

### ***Competitors***

Torque sensing within the automotive industry, historically, has been confined to research and development, utilising expensive strain-gauged transducer systems from suppliers such as Himmelstein and Lebow (now owned by Honeywell). Over the last decade or so, magneto-elastic technology has been offered by companies such as ABB, Siemens and Methode against an automotive industry goal of low cost torque sensing in every vehicle. However, magneto-elastic sensors have problems including sensitivity to stray magnetic fields, susceptibility to mechanical knocks and, significantly, material selection. OEMs are never keen to change their material specifications, which are hard won choices based on cost versus structural performance.

Transense's SAW sensors require no more material than that required by existing sensors, magnetic fields do not affect them and actual measurement performance is markedly superior compared to magneto-elastic devices, as evidenced by a recent independent federal/industry funded study in North America.

### ***IP/Patents***

The Company has filed a number of patents covering its torque sensors including: interrogation of passive sensors, SAW sensor with improved temperature stability, electrical signal coupling device, rotary signal

coupler, split-ring rotary coupler incorporating dual resonant sensors, flexplate torque sensor and SAW sensor for measurement of torque within a powertrain. Patents have been filed in Europe, US, China, Japan and in specific instances are extended to further areas, such as Taiwan.

### ***Contracts/Licences***

The Directors and the Proposed Directors believe that automotive torque applications will far outnumber pressure applications. Transense currently has granted two torque licences:

- **Honeywell:** In November 2004, Honeywell signed a licence agreement for the Company's SAW torque technology with exclusivity for powertrain applications and non-exclusive rights for other automotive torque applications. Transense is supporting Honeywell working with two large US OEMs (with a third in discussions) to provide direct torque measurement systems for engine, transmission and driveline control, while in Europe a project with a prestige car manufacturer for driveshaft torque sensing is proceeding. Measurement performance of all these systems has exceeded OEM expectations and has generated a great amount of interest as a result of the federal/industry study in North America referred to earlier.
- **Stack:** Stack has rights to exploit motorsport and limited volume torque applications and the Directors and Proposed Directors anticipate that Stack will support Transense in working directly with a large US OEM's race engineering team.

### **Products in development**

The US sensor market is still expanding with automotive and industrial sectors representing 51.6 per cent. of the market. The Company is continuing to develop its sensors for applications in the industrial market of which pressure and temperature respectively represent 9 per cent. and 8 per cent. of the entire market.

Non-automotive applications currently under consideration include liquid food processing (in conjunction with one of Transense's licensees) and medical. Further opportunities extend to the aeronautical and petrochemical industries.

## **4. Information on Bishop**

Bishop is a leading global technology licensing and know-how company serving the automotive industry. This historically family run business, founded in 1975, has its headquarters in Australia and employs 115 people around the globe (excluding people employed in its joint ventures). Bishop supplies intellectual property, tooling, special purpose machines and components to a number of automotive OEMs and tier one suppliers globally. Specifically, Bishop is focused on the steering gear industry for passenger motor vehicles, with its technology being incorporated in approximately 24 per cent. of all motor vehicles manufactured annually around the world. Bishop, through its joint ventures, is the only global independent steering rack supplier.

### **Revenue model**

Bishop derives its revenue from three main sources: royalties/licence fees, provision of automotive engineering services and the sale of specialist machines and tooling (protected by patents covering both products and processes). Licences traditionally generate two forms of revenue stream, a one-off upfront payment (licence fee) and a royalty stream, which represents an ongoing annuity based on a per piece rate for use of Bishop's technology in the OEMs or tier one manufacturing process. This proven technology underpins lucrative long term agreements of up to eight years with OEMs. Significant demand for Bishop products and services is derived from Bishop's two joint ventures created with strategic partners that supply both the automotive OEMs and tier one suppliers of automotive components.

In the financial year ended 30 June 2007, Bishop earned 44 per cent. of its sales, royalties and licence revenues in the US (year ended 30 June 2006: 46 per cent.; year ended 30 June 2005: 42 per cent.); 23 per cent. of its sales, royalties and licence revenues in Europe (year ended 30 June 2006: 30 per cent.; year ended 30 June 2005: 10 per cent.); and 33 per cent. of its sales, royalties and licence revenues in Asia (year ended

30 June 2006: 24 per cent.; year ended 30 June 2005: 48 per cent.). These figures are sourced from management accounts and have not been audited.

The Bishop Technology Group is split into three operating divisions: Bishop Steering Technology, Bishop Innovation and Bishop Manufacturing Technology.

### **Bishop Steering Technology**

Bishop Steering Technology comprises Bishop Steering Technology Limited and Bishop Steering Technology Inc.

#### ***Bishop Steering Technology Limited (“BST”)***

BST is a leading participant in the automotive steering gear technology innovation market. With offices serving Europe, Asia-Pacific, North and South America, BST offers OEMs and component suppliers integrated IP and manufacturing know-how solutions. BST is recognised around the world as a successful innovator in automotive steering, from concept development and engineering design, through to marketing and IP protection. BST’s extensive research and development capabilities help provide manufacturers with superior product performance at minimum production costs.

BST has developed a warm forging manufacturing process. This process can be applied to a number of automotive components and has ultimate application in other fields. BST originally developed this process to manufacture variable ratio gear forms for steering racks. The traditional manufacturing process used by the world’s top five steering manufacturers for these components, called the broaching method, involves the removal of large amounts of material in complex machining operations, creating substantial waste material. The BST warm forging process enables the manufacture of net shape accurate gear forms, without the need to remove excess material or ‘flash’ commonly found with other forging processes. This reduces the weight of the product, the cost of materials and increases overall strength. It is a very clean, precision process and the surface finish is such that the gear teeth require no further manufacturing processes.

Due to the strength of this manufacturing process, Bishop decided to commercialise this technology through a joint venture/licensing combination, rather than taking a licensing only approach. By setting up the joint ventures Bishop is able to take advantage of the substantial profit opportunity compared to the competing processes. Bishop saw little reason to allow the licensee to gain the majority of this benefit. Furthermore, Bishop saw the following additional benefits:

- The joint venture has to purchase all special purpose equipment, major forging dies and consumable tooling from Bishop because it is IP protected
- The joint venture receives the technology under a licence which does not include future manufacturing processes or improvements
- The joint venture has to pay for the licence just as any other licensee of Bishop
- As a joint venture partner, Bishop can observe and learn further from the process in a high volume series application
- Bishop controls the marketing of the series produced components from the joint venture and can earn additional sales commission.

Bishop currently has two joint ventures: BMB Steering Innovation GmbH (“BMB”) and Bishop Hando Steering Components Limited (“BHSC”). BST generates revenue through its joint ventures by licensing its manufacturing processes to BMB and BHSC, receiving license fees, royalties, commission on sales of steering components and from the sale of specialist Bishop machinery and tooling. These joint ventures enable Bishop to influence the IP, international marketing, brand recognition, design and technological advancements of steering racks.

- **BMB Steering Innovation GmbH, Germany** – BMB was established as a 50/50 joint venture between Bishop Steering Technology GmbH (a wholly owned subsidiary of BST), and Mercedes Benz in 1998. Mercedes Benz has since sold its 50 per cent. stake to ThyssenKrupp Presta Steertec GmbH. Through this joint venture, Bishop licenses its technology know-how and IP to BMB. With



these patented technology processes, BMB manufactures steering racks for the passenger car market and is the largest tier two supplier of steering racks in Europe. The Board of BMB agreed to expand its operations into North America in 2005 and establish a subsidiary, BMB Steering Innovation Inc. ("BMB US"). Bishop provided a new non-exclusive licence to BMB US to allow it to manufacture and market steering racks in North America for sale around the world. BMB US has opened a new facility in a 255,000 sq ft building which is owned by it at Fort Mill, South Carolina which is expected to start production in 2008. Bishop does the worldwide marketing for BMB for a commission on each rack sold. The Directors and Proposed Directors believe that, by the end of 2008, BMB US will have the capacity to produce circa 1.2 million steering racks annually.

- **Bishop Hando Steering Components Limited, Korea** – Bishop has been advised by their tier one customers in Asia that they need a tier two supplier of steering racks. This is because they are supplying global platforms and need local delivery of racks to a consistent design, quality and price. In January 2006, BST signed a 50/50 joint venture agreement with Hando Machinery Company Limited to set-up a manufacturing facility in Korea. BHSC, through licensing IP from Bishop, manufactures steering gear components for the global automotive market. The joint venture commenced production in January 2007. BHSC is an outsourced manufacturing facility in Korea which supports the needs of steering gear manufacturers. The Directors and Proposed Directors believe that, by mid 2009, BHSC will have the capacity to produce circa 2 million steering racks annually.

#### ***Bishop Steering Technology Inc. ("BST Inc")***

BST Inc, situated in Indianapolis, serves Bishop's existing customers in North America. BST Inc primarily provides consultancy services and support to major tier one automotive component suppliers and OEMs including Ford, General Motors, Delphi and ThyssenKrupp and also in the aeronautical sector to Raytheon Incorporated and Triumph Controls Incorporated. BST Inc provides prototyping and associated precision engineering work and will assist BMB's expansion into North America.

#### **Bishop Innovation Limited ("BI")**

Based in Australia, BI is a technology division that develops and commercialises products and processes that are potentially of real benefit to Bishop's global market. BI identifies, generates and protects socially beneficial innovation in the area of transportation technology.

#### **Bishop Manufacturing Technology Limited ("BMT")**

Based in Australia, BMT is a technology innovation business that manufactures precision tools and special purpose equipment and offers precision engineering services leveraging Bishop's overall know-how and IP. With a broad range of engineering and precision toolmaking skills and a reputation for innovation and design, BMT offers solutions to production problems and is a reliable and versatile engineering partner for customers in the automotive, aerospace, defence, medical devices and telecommunications industries. Customers include Cochlear, ResMed and Portland Orthopaedics as well as internal customers such as BMB and BHSC.

#### **Applications and processes**

Over its lifetime, Bishop has developed a number of patented products and processes principally for steering gear in passenger motor vehicles. The creation of these IP protected products and processes has established Bishop as one of the largest independent suppliers of technology in this market segment. Bishop has also been able to successfully create IP that is applicable to other market opportunities as illustrated below.

- **Bishop variable ratio rack & pinion steering:** Bishop was the inventor of variable ratio steering. The variable ratio reduces the "twitchiness" of the vehicle at high speed driving but also provides greater assistance with parking.
- **F1 titanium rack:** Bishop supplies vehicle dynamics consulting services and produces steering racks for a number of the Formula One ("F1") teams. These racks are variable ratio and provide improved handling performance in racing.

- **Patented precision rack warm forging process:** Bishop developed a unique precision warm forging process that can be used for a number of components that today are typically machined. This process is “net shape” meaning that there is no further work needed on the part.
- **Bishop warm forging Y-Die:** The patented Bishop Y-Die was the first die developed to make use of the warm forging process. This is a complex closed die which incorporates hydraulic and mechanical components. All the elements of the die close together on the material to produce a Y form variable or constant ratio steering rack.
- **Bishop warm forging D-Die:** Bishop recently developed the patented D-die to further make use of the warm forging process. This constant diameter D shape allows direct inter-changeability with existing broached rack designs. Further variations of this rack include; dual diameter which allows for downsizing the rack for weight reduction; U form which offers wider teeth for better strength, mesh, quality and stability.
- **Patented lightweight steering racks:** Bishop has developed IP in two areas of lightweight racks. The first is in a composite rack and the second is in a hollow mandrel rack. The Directors and Proposed Directors believe that the composite rack will be the first to be commercialised. This method allows both Y and D form racks to be made. It still makes use of the advantages of the existing warm forging technology. However, it has a lower raw material requirement and results in a significantly lower weight rack.
- **Bishop on-centre detent system:** Bishop developed this ‘bolt-on’ technology mainly for the sports utility vehicle market in North America. The on-centre detent system provides a firmer feel to the steering in the on-centre region.
- **ATS hydraulic power steering valve:** The ATS Power Steering Valve was developed by Bishop to provide a quieter valve which was still able to be manufactured on a very efficient high volume manufacturing process that Bishop had previously developed.
- **Bishop air balance valve centring machine:** All hydraulic power steering valves have to be centred, balanced and tested during manufacture. Bishop developed a unique machine which uses air as the balancing medium instead of oil. This is therefore a cleaner and faster process. When the valve is balanced it is then pinned before assembly into the steering gear.
- **Bishop SS11- CNC sleeve slot machine:** Bishop invented this process to cut slots on the sleeves of power steering valves. It is a unique machine which moves the cutting tool through an arcuate movement to cut the slot very quickly. Previously all sleeves manufactured were in three pieces. With the Bishop process, they can be manufactured in one piece.
- **Bishop CNC feather edge grinding machine:** Bishop invented this process which grinds metering edges on to power steering valve input shafts in a very fast cycle time. These metering edges are ground to an accuracy of half a micron which the Directors and Proposed Directors believe is the most accurate input shaft grinding process in the world.
- **Bishop rotary valve for internal combustion engines:** Bishop has developed and patented a unique rotary valve for internal combustion engines. This valve was originally developed for the V10 F1 engine until the Federation Internationale de L’Automobile revised the rules. Bishop had a licence agreement with Mercedes High Performance Engines which has now lapsed due to the change in rules. Bishop has substantially reduced the ongoing development cost and is now focused on the motor cycle engine market.
- **Bishop crown wheel forging Die:** Bishop has patented a forging die to manufacture crown wheels. The crown wheel is a critical component of the differential in the rear axle of every rear wheel drive car. Bishop has not yet manufactured a crown wheel forging die due to the investment required. Bishop has carried out extensive experimentation and simulation to give assurance of the feasibility of this process. A number of very large axle manufacturers are currently showing interest in this process.

### **Market**

The automotive market is under cost pressure and is consolidating. Bishop is protected from these industry pressures with its IP development and commercialisation through its joint ventures. Currently Bishop's steering rack sales through its joint ventures account for 7 per cent. of the world's total steering rack market. Through Bishop's German based joint venture BMB, 60 per cent. of Bishop's total rack sales are concentrated in Europe. The Asia Pacific region, which is one of the fastest growing markets, only accounts for 12 per cent. of Bishop's total rack sales. Of the three largest steering gear markets, the Asia Pacific region accounts for 39 per cent., North America 29 per cent. and the balance of 32 per cent. is accounted for by Western Europe. This illustrates the growing potential for penetration into the Asia Pacific region and North America leveraging off Bishop's proven technology. This also supports the expansion into these key regions through the upside potential of BHSC and BMB US. The total steering gear market value (of which steering racks form a subset) is forecast at €9.5 billion in 2008, which is set to grow alongside light vehicle production, which is expected to grow from 62.2 million vehicles in 2005 to 77.6 million vehicles globally by 2012.

### **Competitors**

There are no other independent global steering rack suppliers. All of the tier one global steering gear manufacturers could once have been considered to be competitors as they were intent on developing their own steering gear component technology. Most of the tier one steering gear suppliers still manufacture steering racks using the traditional broaching method. They are all now more focused on total system development and prefer to outsource component manufacture such as steering racks. A large proportion of the major tier one steering gear suppliers are now either current licensees or customers of Bishop and/or BMB.

There are three small regional independent manufacturers of steering racks which can be classed as competitors to BMB – Peugeot-Japy, Curtis Screw and Neturen. Peugeot-Japy manufactures only in Europe at one site and uses only the broaching method; steering racks are not its core business. Curtis Screw commenced manufacturing steering racks in 2006 using the broaching method. Steering racks are not its core business and it manufactures only in the US at one site. Neturen manufactures only in Japan and has developed a broached hollow rack process.

### **IP/Patents**

Vehicle and component manufacturers are continually striving to create more efficient, higher performance and safer products, while at the same time reducing costs. Bishop has invested over £10 million on research and development to assist its professional and dedicated team to achieve this goal. Bishop designs innovative products and associated manufacturing processes, drawing on more than 40 years' of experience, and over 300 patents and patent applications worldwide.

<i>Technology</i>	<i>Number of patent families</i>	<i>Number of patents and applications</i>
Racks (including forging dies)	11	61
Hydraulic steering valves (including machines for manufacturing valve components)	22	143
BTAS (Bishop only applicant)	6	7
BRV	13	65
Steering-other (eg. speed sensitive VR)	4	9
Process-other (eg. crown wheel forging)	2	18
Total	<u>58</u>	<u>303</u>

### **Contracts/Licences**

Bishop currently has over 14 licences in place across the globe. European licensees include teDrive GmbH, ZF Lenksysteme GmbH and Adwest Engineering. Bishop's IP and processes deliver products into 24 per cent. of all cars manufactured today and can be seen in vehicles made by Mercedes Benz, BMW, SAAB, Ferrari, Audi, Ford, Jaguar, Bentley, Landrover, Mazda, Cadillac, Lincoln, Pontiac, Volvo, Nissan, Mitsubishi, Chevrolet, General Motors and Chrysler. Other key customers include NSK, Mando, TRW and JTEKT.

## **5. Potential synergies between Transense and Bishop**

### ***Safety and vehicle dynamics***

Transense and Bishop are both technology licensing companies to the global automotive industry. Individually they are focused on innovation for safety critical aspects of commercial and passenger motor vehicles. The Directors and Proposed Directors believe that steering and tyres are two of the most safety critical aspects of any motor vehicle.

Bishop has developed a strong market position in the supply of IP for products and processes for components which are critical to the steering performance of passenger motor vehicles, while Transense has developed a strong market position in the supply of IP for products and processes for components to enable tyre pressure monitoring and torque sensing for improved vehicle control characteristics.

Bishop has marketed its IP and know-how to end customers by explaining the component or system performance in the context of the total vehicle dynamics performance. For example, a vehicle manufacturer needs to understand how a variable ratio steering rack (Bishop technology) will improve the handling of its vehicle.

Bishop has an experienced professional team consisting of 5 PhD, 3 MSc and 38 BSc/BEng qualified engineers. The Directors and Proposed Directors believe that Bishop's vehicle dynamics expertise can be applied to the analysis of Transense's TPMS to determine the importance of correct tyre pressure on the vehicle performance and safety.

The Enlarged Group will be in a position to take a combined approach to marketing the importance of steering, tyres and stability control systems to a vehicle's performance to the major vehicle manufacturers. This can be implemented through Bishop's regional offices in North America, Europe and Asia.

### ***Environmental improvements in vehicle performance***

Transense and Bishop have a secondary focus on fuel efficiency aspects of motor vehicles. Transense's SAW based torque sensing technology provides cumulative fuel consumption benefits by the combination of TPMS, EPAS and real time engine torque monitoring. Bishop's vehicle dynamics expertise (summarised above) could also be employed to quantify the impact of tyre inflation pressure on vehicle handling and safety.

### ***Future steering developments incorporating both Bishop and Transense technology***

EPAS is growing faster than HPAS and is expected to reach a total value in Western Europe, the Asia Pacific region and North America of €3.1 billion in 2011 from €1.9 billion in 2006. HPAS in the same three markets will grow from €5.1 billion in 2006 to €5.4 billion in 2011. There is an opportunity for the Enlarged Group to develop a complete EPAS gear incorporating Transense's SAW sensor and Bishop's variable ratio steering rack. Bishop has good contacts among the tier one steering suppliers, both at the development level and at the commercial level that will assist in promoting Transense's SAW steering torque sensor for EPAS applications.

### ***Combined UK based management and technical expertise***

Transense has significant electronic and software engineering expertise while Bishop has significant mechanical engineering expertise. The combination of these two talent pools provides a very comprehensive mechatronics capability focused on the creation of IP in the field of automotive engineering. Bishop also has a precision engineering operation in Sydney capable of providing design, tooling and prototyping services for the Enlarged Group. The Enlarged Group's management will be located in England to make 'real' time decisions for the global business.

### ***Global marketing***

Bishop has a global presence, with operations in Indianapolis serving North and South America, Magdeburg, Germany serving Europe and Sydney serving Asia. Bishop also has representatives in Japan and China. Bishop and Transense generally deal with different tier one suppliers around the world, however Bishop's

global offices will provide back-office functions for Transense when it needs to expand its local marketing activities.

### ***Formula One business***

Bishop and Transense are currently marketing their technologies to the F1 teams across Europe. Bishop is supplying variable ratio steering racks to four F1 teams, while Transense is offering both TPMS and torque sensing technologies. Bishop believes that, by relocating its F1 marketing/engineering group to the UK office, which is centrally located in 'motorsport valley', it would improve communication with the teams resulting in increased business. Transense is also very close to many of the F1 teams and has established contacts with many of them, (including Prodrive which will enter in the 2008 season). The Directors and the Proposed Directors believe that via a combined approach to motor sport the Enlarged Group's penetration into F1 could be expanded.

## **6. Strategy of the Enlarged Group**

The Acquisition will create an integrated global sensor and automotive technology group, with international IP poised for growth. The relocation of the Proposed Directors to the UK will enhance an experienced UK based management team and offer succession planning for the Enlarged Group, supported by a world class research and development operation. The Enlarged Group will use its vehicle dynamics capability to market safety critical IP protected products to global vehicle manufacturers and appropriate selected tier one automotive component suppliers. The Enlarged Group will also market key components such as steering, torque sensing for powertrain, TPMS and internal combustion engine rotary valves on the basis of enhancements to safety, environment and performance.

The Enlarged Group has very experienced electronics and mechanical engineering IP creation capability which will enable it to employ a licensing and joint venture strategy to extract the maximum profit return from each IP investment.

## **7. Transense audited results for the year ended 31 December 2006**

The Company announced its preliminary results for the year ended 31 December 2006 on 30 March 2007. These results showed that during the year ended 31 December 2006, Transense reported a revenue of £0.60 million (year ended 31 December 2005: £0.55 million). This revenue generated gross profit of £0.55 million in 2006 (year ended 2005: £0.47 million) and the Company made a loss after tax of £1.21 million (year ended 2005: loss of £1.05 million).

## **8. Transense audited results for the six months ended 30 June 2007**

The Company announced its audited results for the six months ended 30 June 2007 on 28 September 2007. During this period Transense generated a revenue of £0.14 million (six months ended 30 June 2006: £0.02 million), gross profit of £0.12 million (six months ended 30 June 2006: £0.003 million) and the Company made a loss after tax of £0.76 million (six months ended 30 June 2006: loss of £0.81 million).

## **9. Bishop audited results for the year ended 30 June 2007**

Bishop reported revenue of Au\$25.1 million for the year ended 30 June 2007 on 28 September 2007 (year ended 30 June 2006: Au\$29.5 million). This revenue generated gross profit of Au\$15.2 (year ended 30 June 2006: Au\$17.3) and Bishop made a loss after tax of Au\$1.6 million (year ended 30 June 2006: profit of Au\$2.3 million).

Bishop incurred one off costs for the year ended 30 June 2007 of Au\$2.3 million (year ended 30 June 2006: Au\$0.1 million). The adjusted profit after tax excluding these one off costs for the year ended 30 June 2007 was Au\$0.8 million (year ended 30 June 2006: Au\$2.4 million). These one off costs incurred in 2007 were due to adjustments required to stock, recognition of foreign exchange movements and start up costs incurred in relation to creating BMB US. These one off costs are explained in further detail below. Additionally, during the year to 30 June 2007, a Au\$3.3 million order (gross contribution Au\$1.2 million) was taken for the supply of machines and tooling to BMB US, the new joint venture. Because of the delay of setting this joint venture up, sales for this order will be recognised in the future. If this order had been fulfilled in 2007

then adjusted profit after tax would increase to Au\$2.0 million (2006: Au\$2.4 million). Financial information relating to the figures set out in this paragraph is sourced from management accounts and has not been audited.

(a) ***Stock write offs***

Bishop's manufacturing operation builds special purpose machinery and tooling. Items not sold immediately are placed into stock ready for future sale. Each quarter the carrying value of this stock is reviewed and if required items are reduced in value in line with their net realisable value. These write downs are typically very small, less than one per cent. of the total carrying value, but are required to ensure compliance with accounting standards. The year ended 30 June 2007 had an exceptional write off due to the delay of opening BMB US. Adjustments in 2007 equated to Au\$640,000.

(b) ***Foreign exchange movements***

Bishop has some exposure in relation to transactions undertaken that are not in Australian dollars. With the use of hedging and forward contracts the impact of movements in relation of the translation of foreign currencies to Australian dollars can be managed, however, there are other theoretical translations that occur due to the need to consolidate foreign controlled entities into the Bishop Technology Group results. These translations are non cash but any gains or losses must be recognised in the accounts. In the past these gains or losses were recognised in the profit and loss. In 2007, under the new accounting standards, the foreign exchange movements relating to specific accounts are now to be recognised in the balance sheet. For the financial year ending 30 June 2007, a one off adjustment was required to correct foreign exchange gains in relation to translation of the Bishop US dollar loan, the net result was a one off adjustment to the profit and loss account. Adjustments in 2007 equated to Au\$786,000.

(c) ***BMB US***

As discussed above, in recognition of the market potential for the sale of racks in North America, BMB has decided to build a new facility in Fort Mill, South Carolina. Prior to the start of production there are start up losses associated with creating this new venture. These are recognised in the 2007 accounts. Adjustments in 2007 equated to Au\$918,000.

## **10. Current trading and future prospects**

### **Transense**

#### ***Current trading***

Trading remains in line with management expectations. Transense has reached an advanced stage with another licensee to make TPMS SAW devices. The Directors and Proposed Directors expect the licence to be signed on the acceptance of working devices by the Company. Under the terms of the licence, Transense will receive an up front payment followed by a royalty on all sales.

Transense continues to work closely on torque sensing with Honeywell and the Company has recently hosted three Honeywell engineers to transfer technology in readiness for volume production.

#### ***Future prospects***

The Company has recently been focussing on three major projects – two with large US auto manufacturers for engine and transmission torque applications and one with a major European premium car manufacturer for drive-shaft torque sensing. The engine and transmission programs have now completed two years of in-lab dyno testing and are moving to road trials. One company is pushing for production ready systems by the end of next year while the other plans, in addition, to proliferate the SAW technology into other torque and TPMS applications throughout the Group.

Michelin is now marketing the Company's TPMS technology in truck tyres and several thousand sensors have been ordered to start marketing in the off-highway and agricultural vehicle sector. The Company is still fine tuning its batteryless TPMS technology for passenger vehicles and, although it is taking longer than

anticipated to bring to the OEM market, the Board is targeting smaller specialist after-market suppliers and working towards market entry over the next twelve months.

Apart from the automotive sector, the Board has identified that customers for pressure sensors in the industrial market are also showing a keen interest.

### **Bishop**

Bishop's revenue has displayed a declining trend from June 2005 to June 2007. Management attributes the decline to invoicing in US\$, a weakening currency compared to the Au\$, as well as declining demand for Ford motor vehicles (Visteon, Ford's major tier one supplier being a key royalty contributor to Bishop). Further, Bishop's slowdown in revenues in 2007 was directly attributable to the delay in commencement of BMB's new North American warm forging rack manufacturing joint venture. This BMB joint venture is now underway and will commence production in 2008 with 75 per cent. of capacity already committed. In addition to this, Bishop is expected to complete negotiations for an additional facility in Asia in 2008.

As explained earlier, a number of one off costs were incurred by Bishop in 2007, totalling Au\$2.3 million and have therefore affected Bishop's profit after tax figures for the year ended June 2007. These one off costs incurred in 2007 were due to adjustments required to stock, recognition of foreign exchange movements and start up costs incurred in relation to creating the joint venture in the US. In addition, a Au\$3.3 million order (gross contribution Au\$1.2 million) was taken but not delivered due to the delay in setting up BMB US.

### **11. Principal terms of the Acquisition**

The Company has agreed to acquire the entire issued share capital of Bishop. The acquisition price is to be satisfied by the issue of 37,535,553 Consideration Shares to the Vendors. In connection with the Acquisition Bruce Grey and Daimler A.G. have agreed to cancel options to acquire shares in the capital of Bishop. The consideration for the cancellation is to be satisfied by the issue of 445,823 Consideration Shares to Bruce Grey and 397,425 Consideration Shares to Daimler A.G.

The Acquisition Agreement is conditional, *inter alia*, upon:

- (a) Second Admission occurring on or before 5.00 p.m. on 4 December 2007;
- (b) no fact or circumstance having occurred which would amount to a material breach of any of the warranties contained in the Acquisition Agreement; and
- (c) the passing of the Resolution by Shareholders to approve the Acquisition and the Placing at the GM to be held at the offices of Travers Smith, 10 Snow Hill, London EC1A 2AL on 16 November 2007 at 11.00 a.m., notice of which is set out at the end of this document.

It is expected that completion of the Acquisition and Second Admission will take place on 20 November 2007.

Further details of the Acquisition Agreement are contained in paragraph 14(v) of Part VI of this document.

### **12. Board of the Enlarged Group**

The Board of Transense currently consists of Peter Woods, James Perry, Howard Pearl, Graham Eves, Raymond Lohr, Antony Baldry and Rodney Westhead:

- **Peter Woods** *Non-Executive Chairman* (aged 71) – Peter was until recently a Senior Investment Advisor with the Exports to Japan Unit, British Trade International. He was President of Rover Japan Ltd, Regional Director Overseas of Rover Group Ltd and in 1996 received the OBE for services to Export. He is also Non-executive Chairman of Image Scan Holdings plc and of Mastermailer Holdings plc. Peter joined Transense in November 2000.
- **James Perry** *Chief Executive Officer* (aged 68) – Jim is responsible for the day-to-day running of the Company and carrying out the function of Chief Executive. He has considerable experience in the

financing and development of smaller companies. He is also a Non-executive Director of Mastermailer Holdings plc. Jim founded the Company in 1991.

- **Howard Pearl** *Finance Director* (aged 63) – Howard is a Chartered Accountant with a background in the oil industry. He spent 26 years with Ultramar PLC and then Lasmo PLC in New York, London and Montreal. In 1994 he joined the management team that started MMS Petroleum PLC, which went to AIM in 1996. MMS was taken over in 1998. Howard joined the Company in November 1999.
- **Graham Eves** *Commercial Director* (aged 61) – Graham has considerable experience within the automotive technology market place with an extensive network of contacts throughout the world in that industry. He was formerly with GKN for 13 years in their international operations and held a number of directorships. He is a member of the AIM Advisory Committee of the London Stock Exchange. Graham joined the Company in September 1998.
- **Dr Raymond Lohr** *Technical Director* (aged 59) – After completing a PhD at Bristol University in 1978, Ray joined Instron progressing to Technical Director and finally Corporate Research Director. A Visiting Professor at Oxford University, he represents the UK internationally for materials testing standards. Ray joined the Company in May 2002.
- **Antony Baldry MP** *Non-Executive Director* (aged 57) – Tony is the Member of Parliament for Banbury and North Oxfordshire and formerly a Foreign Office Minister of eight years in the last Conservative government. He is a member of the Commons Trade and Industry Select Committee and a Barrister at Law specialising in construction, commercial and international matters. Tony joined the Company in November 1999.
- **Rodney Westhead** *Non-Executive Director* (aged 63) – Rodney is a Chartered Accountant by training and until 2005 was Chief Executive of Ricardo plc, the major automotive consulting engineering group with sales of £150 million a year. He is also Chairman and interim Chief Executive of Carter & Carter plc, Chairman of Clean Air Power plc and Non-executive Director of Mouchel Parkman plc and AEA Technology plc. Rodney joined the Company in April 2007.

Transense has made significant progress with its technology over recent years, and the Board feels it is now the right time to strengthen the management team and importantly secure its succession. Bruce Grey will become Chief Executive Officer of the Enlarged Group and James Perry, the current Chief Executive Officer, will move to Non-Executive Deputy Chairman position. Tim Renfrey will become the Finance Director of the Group. These changes will become effective once the two new executives have completed their planned resettlement in the UK. Howard Pearl, who is currently employed part time as Transense Finance Director, will continue to provide support until the new team has fully settled in.

Subject to the changes outlined above, the Board, following Second Admission, will consist of the Directors and the Proposed Directors:

- **Bruce Grey** *Chief Executive Officer of Bishop (Proposed Chief Executive Officer)* (aged 61) – Bruce has been with Bishop for 11 years. He has 35 years experience in senior management positions in engineering, manufacturing and international market development. He is a fellow of the Australian Academy of Technological Scientists and Engineers (FTSE).
- **Tim Renfrey** *Chief Financial Officer of Bishop (Proposed Finance Director)* (aged 38) – Tim has been with Bishop for 7 years. He has 20 years experience in accounting and financial management with engineering and service companies.

### 13. Share Option Schemes

The Directors recognise the importance of ensuring that employees are well motivated and identify closely with the success of the Company. Accordingly, the Company has in place, at the date of this document, the Share Option Schemes detailed in paragraphs 4.1 to 4.3 of Part VI of this document.



On Second Admission, the Company will (excluding the proposed grants referred to below) have 2,778,850 Ordinary Shares, representing 2.3 per cent. of the Enlarged Share Capital under option under the Share Option Schemes. The Directors have determined that after Second Admission, subject to Shareholder approval of the 2007 Unapproved Scheme at the GM, further options under the 2007 Unapproved Scheme and the Transense Technologies plc 2005 Enterprise Management Incentive Share Option Contract may be granted to selected employees and directors of the Enlarged Group (such options not to exceed the maximum limits (statutory or otherwise) set out in the 2007 Unapproved Scheme and the Transense Technologies plc 2005 Enterprise Management Incentive Share Option Contract, further details of which are set out in paragraphs 4.3 and 4.4 of Part VI of this document).

Under the Transense Technologies plc 2005 Enterprise Management Incentive Share Option Contract, the Company proposes to grant the following:

- (a) after close of business on the date of this document, the Company proposes to grant options over that number of Ordinary Shares equal to £215,000 divided by the market value of an Ordinary Share at close of business on the date of this document (each grant being rounded up to the nearest 5,000 Ordinary Shares) in aggregate to existing Transense employees; and
- (b) immediately following Second Admission, the Company proposes to grant options over that number of Ordinary Shares equal to £100,000 divided by the market value of an Ordinary Share at close of business on the date of Second Admission (each grant being rounded down to the nearest whole Ordinary Share) to each of the Proposed Directors.

Immediately following Second Admission, the Company proposes to grant options over the following numbers of Ordinary Shares under the 2007 Unapproved Scheme:

- (a) an aggregate of 1,250,000 Ordinary Shares to the Proposed Directors and Raymond Lohr; and
- (b) an aggregate of 1,140,000 Ordinary Shares to Bishop employees.

## **14. Corporate governance**

### **Board**

The Board is responsible for establishing the strategic direction of the Company, monitoring the Company's performance against its business plan and its trading performance. The Board currently consists of four Executive Directors and three Non-Executive Directors and, following Second Admission, the Board will consist of six Executive Directors and three Non-Executive Directors.

The Board has a procedure through which the Directors are able to take independent advice in the furtherance of their responsibilities. The Directors have access to the advice and services of the Company Secretary, Watlington Securities Limited, who are responsible for ensuring that Board procedures are followed and compliance with applicable rules and regulations.

The Company complies with the Combined Code so far as is reasonably practicable for a company of its size. Where full compliance is not appropriate, the Board refers to guidance issued by the Quoted Companies Alliance.

The Board meets regularly throughout the year and all necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings take place or other arrangements are made when Board decisions are required in advance of regular meetings. The Board has established guidelines requiring specific matters to be subject to a decision by the full Board (with other matters delegated to Board committees). The Board is responsible for leading and controlling the Group and following completion of the Acquisition, the Enlarged Group and, in particular, for formulating, reviewing and approving its strategy, budget, major items of capital expenditure and acquisitions and disposals. In addition, the Board has established a remuneration committee and an audit committee with formally delegated duties and responsibilities, which have written terms of reference as summarised below.

All of the Non-Executive Directors are deemed to be independent non-executive directors for the purposes of the Combined Code. Each of the Non-Executive Directors holds options in the Company, but as no Non-

Executive Director holds options exceeding one per cent. of the Existing Ordinary Shares, the Board is satisfied that their independence is not compromised.

Following Second Admission, Jim Perry will hold 1,955,892 Ordinary Shares, equating to 1.6 per cent. of the issued Ordinary Shares and hold 640,000 options in the Company.

### **The remuneration committee**

This committee is chaired by Peter Woods. Its other members are Tony Baldry and Rodney Westhead. Only Non-Executive Directors will be on the remuneration committee. The remuneration committee meets formally at least once a year and otherwise as required. The remuneration committee, within agreed terms of reference, considers all material elements of remuneration policy, remuneration and incentives of Executive Directors (including pension rights and compensation payments) and senior management with reference to independent remuneration research and professional advice. The Board is then responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors and senior management. Whilst the actual grant of options under the Share Option Schemes is made by the Board, it is the remuneration committee that is responsible for making recommendations for the grants of options to the Board as well as, where appropriate, setting performance conditions attached to the grant of options.

The remuneration committee also has responsibility for considering the advice of the Chief Executive on the terms and conditions of the appointment of Directors and to review Directors' fees and other payments, including approved and unapproved options and for considering and reviewing the advice of the Chief Executive on the general remunerations policies of the Company, including the approved option scheme.

### **The audit committee**

The audit committee is chaired by Rodney Westhead and also comprises Peter Woods and Tony Baldry. It meets whenever there is business to discuss and at least twice each year. The audit committee is responsible for ensuring that the financial performance of the Group (and following completion of the Acquisition, the Enlarged Group) is properly monitored, controlled and reported on. It also meets the auditors and reviews reports from the auditors relating to accounts and internal control systems. The Guidance published by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal control requirements of the Combined Code has been brought to the attention of the Directors. In line with the Turnbull Report, the Board keeps under regular review key business risks in addition to the financial risks facing the Group in the operation of its business.

The Directors comply with Rule 21 of the AIM Rules for Companies relating to dealings by directors and applicable employee(s) dealings in the Company's securities and, to this end, the Company has adopted an appropriate share dealing code.

### **Internal controls**

The Board will be responsible for establishing and maintaining the Enlarged Group's system of internal controls and places importance on maintaining a strong control environment. The key procedures which the Board intends to establish with a view to providing effective internal controls are expected to be as follows:

- the Board will be responsible for identifying the major business risks faced by the Enlarged Group and for determining the appropriate courses of action required to manage those risks;
- the Enlarged Group's organisational structure will have clear lines of responsibility and reporting; and
- the Enlarged Group will prepare a comprehensive annual budget that is approved by the Board.

Monthly results will be reported against the budget and variances will be closely monitored by the Board. The Directors and the Proposed Directors recognise, however, that such a system of internal controls will only provide reasonable, not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of the system of internal controls as it will be operated by the Enlarged Group.

## 15. Dividend policy

In the short term, the Board does not intend to declare a dividend but will reconsider this as and when the growth and profitability of the Company allow. The declaration and payment of any future dividends by the Company and the quantum thereof will be dependent upon the Enlarged Group's results, financial position, cash requirements, future prospects, profits available for distribution and factors deemed by the Board to be relevant at the time.

## 16. Details of the Placing

The Company and Noble have today entered into the Placing Agreement pursuant to which Noble, as agent for the Company, has agreed, subject to the fulfilment of certain conditions, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.

The obligations of Noble under the Placing Agreement are conditional upon, *inter alia*, First Admission taking place by 8.00 a.m. on 19 November 2007 (or such later date, being not later than 5.00 p.m. on 4 December 2007, as the Company and Noble may agree).

The Placing is intended to raise up to £4.4 million for the Company (net of expenses). The Placing Shares (assuming the maximum number of Placing Shares are placed) will represent 21 per cent. of the Enlarged Share Capital of the Company immediately following Second Admission. The Placing Price represents a discount of approximately 35 per cent. to 35.25 pence per share, the share price at 18 October 2007 (being the latest practicable date prior to the publication of this document).

The Placing Shares will, on Admission, rank in full for all dividends and other distributions declared, paid or made in respect of the issued ordinary share capital of the Company and otherwise will rank *pari passu* in all respects with the Existing Ordinary Shares and the Consideration Shares in issue.

It is expected that the proceeds of the Placing will be received by the Company on or around 26 November 2007. The Placing is not being underwritten but has been pre-placed with institutional and other investors.

Further details of the Placing Agreement are set out in paragraph 12 of Part VI of this document.

## 17. Reasons for the Placing and use of proceeds

The net proceeds of the Placing will be used as working capital for Transense to accelerate its commercialisation process, assist in targeting major tier one and two automotive component manufacturers and fund the continuing development of SAW technology. The net proceeds will also be used as working capital for Bishop to reduce long term debt and assist in funding for a high speed warm forge facility in Asia.

## 18. Taxation

General information relating to UK taxation with regards to Admission and the Placing is summarised in paragraph 13 of Part VI of this document. **A Shareholder or potential Shareholder who is in any doubt as to their tax position, or is subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers immediately.**

## 19. Admission to AIM and dealings

The Acquisition constitutes a reverse takeover under the AIM Rules and is therefore dependent upon the approval of Shareholders being given at the General Meeting, notice of which is set out at the end of this document. A Resolution will be proposed at the GM, *inter alia*, to approve the Acquisition. If the Resolution is duly passed at the GM, and the other conditions set out in the Acquisition Agreement and in the Placing Agreement are met, application will be made for the Existing Ordinary Shares to be re-admitted to trading on AIM and the Placing Shares and the Consideration Shares to be admitted to trading on AIM.

It is anticipated that the First Admission will become effective and that dealings will commence in the Existing Ordinary Shares and the New EIS Shares at 8.00 a.m. on 19 November 2007, that Second Admission will become effective and that dealings will commence in the Consideration Shares and Non-EIS Shares at 8.00 a.m. on 20 November 2007. The reason for the two admissions is to enable the company to issue eligible shares whilst the Group's gross assets are less than £7,000,000 pre-investment and £8,000,000

post-investment to individuals investing under the EIS, following the introduction of the £2,000,000 annual investment limit introduced by the Finance Act 2007.

## **20. General Meeting**

Set out at the end of this document is a notice convening a General Meeting of the Company to be held at the offices of Travers Smith, 10 Snow Hill, London EC1A 2AL at 11.00 a.m. on 16 November 2007. A Form of Proxy to be used in connection with the General Meeting is enclosed.

The purpose of the General Meeting is to seek Shareholder approval of the Resolution to:

- (i) approve the Acquisition, in accordance with the terms of the Acquisition Agreement;
- (ii) increase the authorised share capital of the Company from £7,000,000 to £18,000,000 by the creation of an additional 110,000,000 Ordinary Shares, representing an increase of approximately 157 per cent. of the current authorised share capital;
- (iii) authorise the Directors, for the purposes of section 80 of the Act, to allot (a) relevant securities up to an aggregate nominal amount of £6,229,944.50 (62,299,445 New Ordinary Shares) pursuant to the Acquisition and the Placing (representing approximately 110 per cent. of the number of Existing Ordinary Shares and approximately 52 per cent. of the Enlarged Share Capital) and (b) an amount equal to £3,575,028.33 (provided that, to the extent that such nominal amount represents more than one-third of the nominal value of the issued share capital immediately following Second Admission, the Directors undertake not to exercise such power), such authority to expire, unless sooner revoked or varied by the Company in general meeting, at the conclusion of the next annual general meeting of the Company;
- (iv) disapply the statutory provision of section 89 of the Act to allow (a) the Placing Shares to be issued for cash other than on a pre-emptive basis and (b) the allotment of equity securities up to an aggregate nominal amount of £595,838.06 (provided that to the extent that such nominal amount represents more than 5 per cent. of the nominal value of the issued share capital immediately following Second Admission, the Directors undertake not to exercise such power); and
- (v) adopt the 2007 Unapproved Scheme, further details of which are set out in paragraph 4.4 of Part VI of this document.

The Resolution will be proposed as a special resolution and, accordingly, will require the approval of 75 per cent. of Shareholders voting in person or by proxy at the GM.

## **21. Irrevocable undertakings**

The Company has received irrevocable undertakings from existing institutional shareholders and the Directors to vote, or to procure the votes of Ordinary Shares held, in favour of the Resolution to be proposed at the GM in respect of a total of 8,444,712 Ordinary Shares representing, approximately 14.8 per cent. of the Existing Ordinary Shares.

## **22. EIS Qualifying Investment Status**

On the basis of the information provided, HMRC has given provisional confirmation that Transense will comply with the requirements of Chapter four of Part VI of the Income Tax Act 2007.

Furthermore, on the basis of information provided to HMRC, the Company has received provisional approval that a proportion of the Placing Shares should be eligible for EIS purposes, subject to the submission of the relevant claim form in due course. Such a claim by the Company does not guarantee EIS qualification for an individual, whose claim for relief will be conditional upon his circumstances and is subject to holding the Placing Shares throughout the three year relevant period. In addition, for EIS relief not to be withdrawn, the Company and the individual must comply with a number of conditions throughout the qualifying period relating to those shares, and no guarantee can be given that the Company will so comply.

### **23. Further information**

Your attention is drawn to Parts I and III to VI of this document which provide additional information on the Group and on the Bishop Technology Group.

### **24. Action to be taken**

Whether or not you intend to be present at the General Meeting, as a Shareholder you are requested to complete and return the accompanying Form of Proxy which is enclosed with this document, in accordance with the instructions printed thereon, as soon as possible and in any event so as to be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 11.00 a.m. on 14 November 2007. Completion and return of the Form of Proxy will not prevent you, as a Shareholder, from attending the General Meeting and voting in person should you wish to do so.

In the event that the Resolution is not approved at the GM, and subject to the development of royalties, up front licence fees and engineering support, it is likely that within twelve months Transense would be required to conduct a new fundraising exercise to develop its business and to generate cash resources. Transense's capital requirements will depend on numerous factors, including its ability to develop and expand its existing business. The Directors believe that as Transense grows it will naturally require additional working capital until growth of revenue and licence income allows it to become self sufficient. In addition, in the medium term, Transense would need to secure and develop a new management team to lead the business.

### **25. Recommendation**

**The Directors, who have been advised by Noble, consider the terms of the Acquisition to be fair and reasonable so far as Shareholders as a whole are concerned.**

**In giving its advice, Noble has taken into account the Directors' commercial assessments.**

**Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolution to be proposed at the GM, as they have irrevocably undertaken to do in respect of their own beneficial shareholdings amounting to, in aggregate, 2,559,648 Ordinary Shares (representing 4.5 per cent. of the Existing Ordinary Shares). Combined with those shares in respect of which irrevocable undertakings have been given, as described in paragraph 21 above, Shareholders who in aggregate own 8,444,712 Existing Ordinary Shares, representing approximately 14.8 per cent. of the Existing Ordinary Shares, have irrevocably undertaken to vote in favour of the Resolution.**

Yours sincerely,

Peter Woods  
*Chairman*

## PART III

### FINANCIAL INFORMATION ON THE TRANSENSE GROUP

#### TRANSENSE TECHNOLOGIES PLC

##### **Chairman's Interim Statement September 2007**

Since the beginning of 2007 Transense has concentrated on working with Honeywell, our exclusive licensee for automotive powertrain torque sensing, on three major torque projects, two for large US Original Equipment Manufacturers (OEMs) and one for a prestige European OEM. Each of these projects generates cash along with a royalty contribution, which has contributed to a revenue increase to £138,000 compared with £17,000 during the equivalent period in 2006. With costs tightly controlled and below budgeted levels, the loss for the period has fallen from £809,000 to £762,000. Cash and cash equivalents at £1.36 million remain similar to the end of last year.

The two US powertrain projects are for engine flexplate torque sensing, which has the potential to improve fuel consumption, reduce CO2 emissions and improve the shift smoothness of automatic transmissions – a key quality parameter in the US. Although the production launch dates for these systems are not yet cast in stone, the larger of the OEMs has indicated that, subject to our technology passing critical gates, Surface Acoustic Wave (SAW) torque sensing will be utilised across their range of passenger vehicles from V8s to in-line 4s. Together these projects represent a substantial share of the US passenger vehicle market.

The European OEM project concerns driveshaft torque sensing, a key enabler for “torque vectoring”, one of the latest techniques for enhancing vehicle stability when cornering. Transense met its project objectives, again proving technically superior to the competing magneto-elastic technology. Honeywell are now engaged in commercial negotiations with the OEM.

We are now receiving royalties from the supply chain to Michelin who continue to commercialise our Tyre Pressure Monitoring System (TPMS) technology in its US truck tyres. Dedicated systems using multiple TPMS sensors per tyre are also being actively considered for off-highway vehicles. We continue to fine tune our batteryless TPMS technology for passenger vehicles and, although it is taking longer than anticipated to bring to the OEM market, we are still confident that our approach is both technically and environmentally superior to the first generation battery powered or indirect Antilock Braking System (ABS) speed sensor based competition. We anticipate entry via the specialist after-market suppliers during the next twelve months.

The recently announced agreement with Schott of Germany demonstrates our ongoing development of commercial partnerships. Together with our licensees, we are pro-actively seeking to broaden our SAW “pressure plus temperature” sensor application coverage to the medical, food processing, aeronautical and industrial sectors.

I thank the Transense team for their diligence and all shareholders for their continued support.

Peter Woods  
*Chairman*

28 September 2007

**The full text of the audited interim results for the six months ended 30 June 2007 is reproduced below.**

### **Statement of directors' responsibilities**

The directors of Transense Technologies plc ('the directors') have accepted responsibility to prepare these Interim Financial Statements for the six month period ended 30 June 2007 on the basis set out in note 1 to the Interim Financial Statements.

In preparing these Interim Financial Statements, the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- prepared the Interim Financial Statements on the going concern basis as they believe that the entity will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the entity and to prevent and detect fraud and other irregularities.

### **Report of KPMG Audit Plc to Transense Technologies plc**

We have audited the Interim Financial Statements of Transense Technologies plc for the 6 month period ended 30 June 2007 which comprise Income statement, Balance sheet, Statement of changes in equity, Cash flow statement and the related notes. The Interim Financial Statements have been prepared for the reasons and on the basis of the accounting policies set out in note 1 to the Interim Financial Statements.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

### **Respective responsibilities of directors and KPMG Audit Plc**

As described on page 39, the directors of Transense Technologies plc have accepted responsibility for the preparation of these Interim Financial Statements in accordance with the basis of preparation as set out in note 1 to the Interim Financial Statements.

Our responsibility is to audit the Interim Financial Statements in accordance with the terms of our engagement letter dated 18 July 2007 and having regard to International Standards on Auditing (UK and Ireland).

Under the terms of engagement we are required to report to you our opinion as to whether the Interim Financial Statements have been properly prepared in accordance with the basis of preparation set out in note 1 to the Interim Financial Statements. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information accompanying the Interim Financial Statements and consider whether it is consistent with the audited Interim Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Interim Financial Statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit having regard to International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Interim Financial Statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Interim Financial Statements, and

of whether the accounting policies are appropriate to the entity'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 Interim Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In view of the purpose for which these Interim Financial Statements have been prepared, however, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

### **Opinion**

In our opinion the Interim Financial Statements of the entity for the period ended 30 June 2007 have been properly prepared in accordance with the basis of preparation set out in note 1 to the Interim Financial Statements.

### **KPMG Audit Plc**

*Chartered Accountants*

Arlington Business Park  
Theale  
Reading RG7 4SD

28 September 2007



**TRANSENSE TECHNOLOGIES PLC**  
**INCOME STATEMENT**

*Interim results for the six months to 30 June 2007*

	<i>Note</i>	<i>6 months to June 2007 £000</i>	<i>6 months to June 2006 £000</i>
<b>Continuing operations</b>			
Revenue		138	17
Cost of sales		(23)	(14)
<b>Gross profit</b>		<u>115</u>	<u>3</u>
Administrative expenses	3	(914)	(861)
<b>Operating loss</b>		(799)	(858)
Financial income		37	49
<b>Loss before taxation</b>		<u>(762)</u>	<u>(809)</u>
Taxation		-	-
<b>Loss for the period attributable to equity holders of the Company</b>		<u>(762)</u>	<u>(809)</u>
<b>Basic and diluted loss per share</b>		<u>(1.3p)</u>	<u>(1.4p)</u>

**TRANSENSE TECHNOLOGIES PLC**  
**BALANCE SHEETS**

*Interim results for the six months to 30 June 2007*

	<i>Note</i>	<i>30 June 2007 £000</i>	<i>31 December 2006 £000</i>
<b>Non-current assets</b>			
Property, plant and equipment		17	23
Intangible assets		1,560	1,567
Available for sale investments		65	65
Loans receivable		25	25
		<u>1,667</u>	<u>1,680</u>
<b>Current assets</b>			
Trade and other receivables		194	639
Cash and cash equivalents		1,362	1,390
		<u>1,556</u>	<u>2,029</u>
<b>Total assets</b>		<u>3,223</u>	<u>3,709</u>
<b>Current liabilities</b>			
Trade and other payables		(226)	(267)
Current tax liabilities		(22)	(21)
<b>Total liabilities</b>		<u>(248)</u>	<u>(288)</u>
<b>Net assets</b>		<u>2,975</u>	<u>3,421</u>
<b>Capital and reserves</b>			
Share capital		5,687	5,646
Share premium account		5,532	5,376
Accumulated loss	4	(8,244)	(7,601)
<b>Shareholders' funds</b>		<u>2,975</u>	<u>3,421</u>

**TRANSENSE TECHNOLOGIES PLC**  
**STATEMENT OF CHANGES IN EQUITY**

*For the six months to 30 June 2007 and the year to 31 December 2006*

	<i>Issued share capital £000</i>	<i>Share premium account £000</i>	<i>Accumulated deficit £000</i>	<i>Total equity £000</i>
At 1 January, 2006	5,641	5,368	(6,635)	4,374
Loss for the year	–	–	(1,210)	(1,210)
Shares issued and share premium	5	8	–	13
Share based transactions	–	–	244	244
At 31 December, 2006	5,646	5,376	(7,601)	3,421
Loss for the period	–	–	(762)	(762)
Shares issued and share premium	41	156	–	197
Share based transactions	–	–	119	119
At 30 June, 2007	5,687	5,532	(8,244)	2,975

**TRANSENSE TECHNOLOGIES PLC**  
**CASH FLOW STATEMENT**

*Interim results for the six months to 30 June 2007*

<i>Note</i>	<i>6 months to June 2007 £000</i>	<i>6 months to June 2006 £000</i>
<b>Cash flow from operating activities</b>		
<b>Loss before taxation</b>	(762)	(809)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	6	10
Amortisation of intangible assets	65	51
Equity settled share based payment	119	126
Financial income	(37)	(49)
<b>Operating cash flows before movements in working capital</b>	(609)	(671)
Decrease in receivables	445	504
Increase in payables	(40)	(104)
<b>Cash used in operations</b>	(204)	(271)
<b>Investing activities</b>		
Interest received	37	49
Acquisitions of intangible assets	(58)	(86)
Acquisitions of investments	–	(40)
<b>Net cash used in investing activities</b>	(21)	(77)
<b>Financing activities</b>		
Proceeds from issue of equity share capital	41	5
Share premium on issue of equity share capital	156	8
<b>Net cash from financing activities</b>	197	13
<b>Net decrease in cash and cash equivalents</b>	(28)	(335)
<b>Cash and cash equivalents at beginning of periods</b>	1,390	2,399
<b>Cash and cash equivalents at end of period</b>	1,362	2,064

## **Notes to the Interim results for the six months to 30 June 2007**

### **1. Basis of preparation**

The AIM Rules require that the next annual financial statements of the company, for the year ending 31 December 2007, be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (adopted IFRSs).

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2007 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2007, the Company's first annual reporting date at which it is required to use adopted IFRSs. The conversion to IFRS has involved no impact on the income statement and cash flows of the Company although there are a number of presentational differences and a reclassification of a debtor to Loans Receivable in the Balance Sheet. The conversion has also involved no significant impact on the Company's existing accounting policies.

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2006. The statutory accounts for 2006, which were prepared under UK GAAP, have been delivered to the Registrar of Companies. The auditors reported on these accounts; their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985. The interim financial information for the six months ended 30 June 2006 has been restated in accordance with IFRS. The auditors gave an independent review report on the UK GAAP financial information.

### **2. Going concern**

The interim financial information has been prepared on a going concern basis, which assumes that the Company will have adequate resources to continue in operational existence for the foreseeable future.

### **3. Share options**

Administrative expenses includes a charge of £119,000 (2006: £126,000) after valuation of the Company's employee share option schemes in accordance with IFRS2 Share-based payments. Under this standard, the fair value of the options at the grant date is spread over the vesting period. These items have been added back in the Statement of Changes in Equity.

### **4. Deferred tax**

No deferred tax asset is recognised in these financial statements in respect of trading losses to date.

# **Accountant's report and financial information on Transense Technologies plc**

The following is the full text of a report on Transense Technologies plc from KPMG Audit Plc



KPMG Audit Plc  
Arlington Business Park  
Theale  
Reading RG7 4SD  
United Kingdom

The Directors and Proposed Directors ('The Directors')  
Transense Technologies plc  
66 Heyford Park  
Upper Heyford  
Bicester OX25 5HD  
United Kingdom

22 October 2007

Dear Sirs

## **Transense Technologies plc (the 'Company')**

We report on the financial information set out on pages 48 to 66. This financial information has been prepared for inclusion in the AIM Admission Document dated 22 October 2007 of Transense Technologies plc on the basis of the accounting policies set out in note 2. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

## **Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with IFRS.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

## **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 22 October 2007, a true and fair view of the state of affairs of Transense Technologies plc as at the dates stated and of its losses, cash flows and recognised gains and losses for the years then ended in accordance with the basis of preparation set out in note 2 and in accordance with IFRS as described in note 2.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies

Yours faithfully

## TRANSENSE TECHNOLOGIES PLC

### INCOME STATEMENT

*For the two years ended 31 December 2006 and 2005*

	<i>Note</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
<b>Continuing operations</b>			
Revenue	3	604	553
Cost of sales		<u>(52)</u>	<u>(85)</u>
<b>Gross profit</b>		552	468
Administrative expenses	4 & 5	<u>(1,966)</u>	<u>(1,672)</u>
<b>Operating loss</b>		(1,414)	(1,204)
Financial income	6	<u>90</u>	<u>58</u>
<b>Loss before taxation</b>	4	(1,324)	(1,146)
Taxation	7	<u>114</u>	<u>100</u>
<b>Loss from continuing operations for the years</b>		<u>(1,210)</u>	<u>(1,046)</u>
<b>Basic and fully diluted loss per share</b>	21	(2.1p)	(1.9p)



## TRANSENSE TECHNOLOGIES PLC

### BALANCE SHEETS

As at 31 December 2006 and 31 December 2005

		31 December 2006 £000	31 December 2005 £000
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	23	38
Intangible assets	9	1,567	1,602
Available for sale investments	10	65	25
Loans receivable	11	25	25
		<u>1,680</u>	<u>1,690</u>
<b>Current assets</b>			
Trade and other receivables	13	639	573
Cash and cash equivalents	14	1,390	2,399
		<u>2,029</u>	<u>2,972</u>
<b>Total assets</b>		<u>3,709</u>	<u>4,662</u>
<b>Current liabilities</b>			
Trade and other payables	16	(267)	(267)
Current tax liabilities		(21)	(21)
		<u>(288)</u>	<u>(288)</u>
<b>Net assets</b>		<u>3,421</u>	<u>4,374</u>
<b>Equity</b>			
Called-up equity share capital	19	5,646	5,641
Share premium account	20	5,376	5,368
Accumulated loss	20	(7,601)	(6,635)
		<u>3,421</u>	<u>4,374</u>
<b>Total equity</b>		<u>3,421</u>	<u>4,374</u>

## TRANSENSE TECHNOLOGIES PLC

### STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2006 and 2005

	<i>Issued share capital £000</i>	<i>Share premium account £000</i>	<i>Accumulated deficit £000</i>	<i>Total equity £000</i>
At 1 January 2005	5,376	3,473	(5,761)	3,088
Loss for the year			(1,046)	(1,046)
Shares issued and share premium	265	1,895	–	2,160
Share based transactions	–	–	172	172
At 31 December 2005	5,641	5,368	(6,635)	4,374
Loss for the year	–	–	(1,210)	(1,210)
Shares issued and share premium	5	8	–	13
Share based transactions	–	–	244	244
At 31 December 2006	5,646	5,376	(7,601)	3,421

## TRANSENSE TECHNOLOGIES PLC

### CASH FLOW STATEMENT

For the years ended 31 December 2006 and 2005

	<i>Note</i>	<i>2006</i> £000	<i>2005</i> £000
<b>Loss for the year</b>		(1,210)	(1,046)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	8	17	31
Amortisation of intangible assets	9	275	56
Equity settled share based payment	20	244	172
Gain on disposal of non-current asset		–	(5)
Financial income		(90)	(58)
Taxation		(114)	(100)
		-----	-----
<b>Operating cash flows before movements in working capital</b>		(878)	(950)
Decrease/(increase) in receivables		(66)	(8)
(Decrease)/increase in payables		–	46
		-----	-----
<b>Cash generated by operations</b>		(944)	(912)
Taxation recovered		114	100
		-----	-----
<b>Net cash from operations</b>		(830)	(812)
		-----	-----
<b>Investing activities</b>			
Interest received		90	58
Proceeds from disposal of property, plant and equipment		–	5
Acquisitions of property, plant and equipment		(2)	(22)
Acquisitions of intangible assets		(240)	(151)
Acquisitions of investments		(40)	–
		-----	-----
<b>Net cash used in investing activities</b>		(192)	(110)
		-----	-----
<b>Financing activities</b>			
Dividends paid		–	–
Proceeds from issue of equity share capital		5	265
Share premium on issue of equity share capital		8	1,895
		-----	-----
<b>Net cash from financing activities</b>		13	2,160
		-----	-----
<b>Net increase/(decrease) in cash and cash equivalents</b>		(1,009)	1,238
<b>Cash and cash equivalents at beginning of years</b>		2,399	1,161
		-----	-----
<b>Cash and cash equivalents at end of years</b>		1,390	2,399
		-----	-----

## TRANSENSE TECHNOLOGIES PLC

### NOTES TO THE FINANCIAL STATEMENTS

For the years ended 31 December 2006 and 2005.

#### 1. General information

Transense Technologies plc is a company registered in the United Kingdom under the Companies Act 1985. The registered address of the company is included in the Directors and Advisers section on page 5. The nature of the company's operations and principal activities are set out in the Directors' Report and in the Segment Reporting note to the Financial Statements.

#### 2. Significant accounting policies

##### A. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. These IFRSs have been adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS regulation. Previously, the annual financial statements were prepared under UK GAAP.

The financial statements have been prepared under the historical cost convention, using pounds sterling, which is both the presentation currency and the functional currency of the company. All figures shown have been rounded to the nearest thousand.

The significant accounting policies adopted are set out below. These have been applied consistently to all years presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRS.

##### B. Significant accounting judgements and sources of estimation uncertainty

In applying the company's accounting policies, management makes certain judgements and estimations:

- Judgements include classification of transactions between the income statement and balance sheet;
- Estimations focus on areas such as carrying values and estimated lives.

The accounting policy descriptions set out areas where judgement is exercised and in consequence might have a significant risk of causing material adjustment within the next financial year. In this regard, the key areas are revenue recognition, intangible assets, taxation and share based compensation.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value is measured based on the Black-Scholes model.

See note F for details of revenue recognition.

The Group has capitalised certain product development costs (see Note 9 "Intangible Assets"). Management has reviewed the carrying amount of these costs for impairment based on expectation of future order intake of the developed products to which these costs relate. This impairment review is based on management's best judgment and, in accordance with the Group's accounting policy, is performed at each balance sheet date. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

C. ***IFRS transitional arrangements***

In terms of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, the date of transition for these 2007 financial statements is 1 January 2005.

IFRS 1, allows various exemptions from the full requirements of IFRSs to companies adopting IFRSs for the first time. The company has elected not to take advantage of the available exemptions.

*Effect of transition to IFRS*

Reconciliations of the Income Statement for the year ended 31 December 2006 and the Balance Sheet as at 1 January 2006 and 31 December 2006 to the previously published UK GAAP information, together with explanations of the reconciling items, are given in Note 27 to the financial statements.

The following IFRSs and IFRICs are effective for years commencing after the date of these financial statements, but the company has not opted for early adoption of these:

- IFRS 7 *Financial instruments: Disclosure*; and the related amendments to IAS 1 on capital disclosures
- IFRIC 10 *Interim reporting and impairments*

The Directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the financial statements of the company.

D. ***Group financial statements and basis of consolidation***

The financial statements present information about the company as an individual undertaking. The three subsidiaries existing at 1 January 2007 have been dormant throughout the period and their assets are considered immaterial. Information about the company's subsidiaries is provided in Note (12) to the financial statements.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at fair values, reflecting their condition or market value 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 income statement.

The company is exempt under Section 229(2) of the Companies Acts 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.

E. ***Revenue recognition***

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

- Royalty income is recognised in the period in which the royalties have been earned;
- Licence fee income, being remittances from third parties for access to the Company's intellectual property, is recognised at the time of invoicing.

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

F. ***Segment reporting***

A business segment is a distinguishable component of the company that is engaged in providing goods and services that is subject to risks and returns that are different from other business segments.

A geographical segment is engaged in providing goods and services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other business environments.

The company's uses business segments to define its primary reporting format as this reflects the dominant source and nature of the company's risks and returns.

**G. *Property, plant and equipment***

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

**H. *Depreciation of property, plant and equipment***

Depreciation is calculated so as to allocate the cost of each asset to its estimated residual value, over its estimated useful life as follows:

- Plant and Equipment 20 per cent. – 33 per cent. straight line
- Motor Vehicles 25 per cent. straight line

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

**I. *Research and development***

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

Expenditure arising from the Company's development projects is capitalised as an intangible asset and amortised over the life of the project only if the Company can demonstrate the following: the technical feasibility of completing the asset so it will be available for sale; the intention to complete the project and use it to sell it; the ability to use or sell the asset; that it is probable that the asset created will generate future economic benefits; there is the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and the development cost of the asset can be measured reliably. All amounts deferred are stated at costs and amortised over the periods benefiting from the sale of the products or processes, beginning in the period in which commercial production commences, base on a maximum ten years' useful life on a systematic basis.

**J. *Patent fees***

Externally acquired patent fees are capitalised and treated as an intangible asset. Amortisation is charged to income statement over the period to which the patent relates to 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 accordingly.

**K. *Impairment of tangible and intangible assets excluding goodwill***

At each balance sheet date, the company 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 income statement. Where the asset has been carried at a revalued amount, the impairment loss is treated as a revaluation decrease.

L. ***Non current asset investments***

Investments classified as available for sale are measured at the lower of carrying amount and fair value less costs to sell.

M. ***Pension costs***

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

N. ***Operating lease agreements***

Rental payments under operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement on a straight line basis over the term of the lease.

O. ***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 income statement 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 that are in force at the balance sheet date.

P. ***Deferred taxation***

Deferred tax is provided in full, using the liability method. It represents the tax payable on temporary differences between the amount recoverable in respect of any 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.

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 the rates that are expected to apply to the period when the asset is realised or the liability is settled.

Q. ***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 company's cash management are included as a component of cash and cash equivalents for the purposes only of the statement of cash flows.

R. ***Foreign currencies***

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are recognised in the income statement.

S. ***Share-based payment transactions***

In accordance with the transitional provisions, IFRS 2 has been applied to all grants of shares or share options made after 7 November 2002 that were unvested as at 1 January 2005.

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 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.

#### T. *Provisions*

Provisions are recognised when the company has a present obligation as result of a past event, and it is probable that the company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure.

### 3. **Segment analysis**

The company's primary reporting segment is business divisions, which correspond with the way the operating businesses are organised and managed within the company. The secondary segment is geographic origin.

Segment results, assets and liabilities comprise those items directly attributable to particular segments, as well as items which can reasonably be allocated to those segments. Inter-segment transactions are entered into applying commercial terms that would be available to third parties.

Unallocated items comprise mainly corporate assets, expenses, loans and borrowings together with the elimination of inter-segment transactions

The following table analyses revenue and operating profit accordingly:

#### *Business segments*

		<i>Tyre pressure monitoring</i>		<i>Torque measurement</i>		<i>Total Year</i>	
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Revenue	External sales	531	504	73	49	604	553
Result	Segment loss	(77)	(22)	(585)	(544)	(662)	(566)
	Unallocated corporate expenses					(752)	(638)
	Operating loss					(1,414)	(1,204)
	Net financing income					90	58
	Loss before taxation					(1,324)	(1,146)
	Taxation recovered					114	100
	Loss for the years					(1,210)	(1,046)
Other information							
	Capital additions	116	86	126	87	242	173
	Depreciation of tangible non current assets	8	15	9	16	17	31
	Amortisation of intangibles	132	26	143	30	275	56
Balance Sheet							
Assets							
	Segment assets	1,369	1,329	797	816	2,166	2,145
	Unallocated corporate assets					1,543	2,517
						3,709	4,662



### 3. Segment analysis (continued)

#### *Business segments (continued)*

	<i>Tyre pressure monitoring</i>		<i>Torque measurement</i>		<i>Total Year</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Liabilities						
Segment liabilities	69	74	63	51	132	125
Unallocated corporate liabilities					156	163
					288	288
Cash Flow						
Operating activities	92	112	(335)	(415)	(243)	(303)
Investing activities	(116)	(86)	(126)	(87)	(242)	(173)
Segment cash flow	(24)	26	(461)	(502)	(485)	(476)
Unallocated financing flows					(524)	1,714
Net increase/(decrease) in cash and cash equivalents					(1,009)	1,238

#### *Geographic segments*

The analysis of revenue from external customers is based on the geographical location of the customers. The carrying amount of segment assets and capital additions are analysed by the geographical area in which the assets are located.

	<i>Revenue from external customers</i>		<i>Carrying amount of segment assets</i>		<i>Capital additions</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
USA	543	545				
United Kingdom	0	3	2,166	2,145	242	173
Rest of the World	61	5				
	604	553	2,166	2,145	242	173

### 4. Expenses and auditor's remuneration

The loss before taxation includes the following

	<i>Note</i>	<i>2006</i>	<i>2005</i>
		<i>£000</i>	<i>£000</i>
Staff costs	5	1,156	1,053
Depreciation of property, plant and equipment	8	17	31
Amortisation of intangible assets	9	275	56
Profit on disposal of property, plant and equipment		–	(5)
Operating lease rentals payable – property, plant and equipment	17	41	41
Auditor's remuneration			
• Audit		23	20
• Other services		–	12

## 5. Staff numbers and costs

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

	<i>Number of employees</i>	
	<i>2006</i>	<i>2005</i>
Management and technical	15	16
Administration	4	4
Non executive directors	3	3
	<u>22</u>	<u>23</u>

The costs incurred in respect of these employees were:

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	775	753
Social security costs	85	81
Pension contributions	40	40
Life assurance plan	12	7
Share option scheme charge	244	172
	<u>1,156</u>	<u>1,053</u>

The share option scheme charge has been calculated in accordance with IFRS 2 *Share-based payment*.

The fair value of services rendered in return for share options granted is measured by reference to the fair value of those share options. The estimate of the fair value of services received is measured based on the Black-Scholes Options Pricing Model. The model takes into account the exercise price, share price at grant date, expected term, expected share price volatility, risk free interest rate and expected dividend yield. The key variable is share price volatility, which is estimated to be 66 per cent.

## 6. Financial income

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Interest income	<u>90</u>	<u>58</u>

## 7. Taxation

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
<b>Recognised in the income statement</b>		
<i>Current tax expense:</i>		
Adjustment for prior years	114	100
	-----	-----
<b>Reconciliation of effective tax rate</b>		
Loss before taxation	1,324	1,146
	-----	-----
Tax using UK corporation tax rate of 30% (2005:30%)	397	344
Non-deductible expenses	(83)	(58)
Capital allowances for period less than depreciation	(5)	(8)
Effect of tax losses utilised	(309)	(278)
Research and development credit	114	100
	-----	-----
<b>Total tax in income statement</b>	<b>114</b>	<b>100</b>
	-----	-----

The company has tax losses, subject to agreement by HM Revenue and Customs, in the sum of £5.7 million (2005: £5.3 million), which are available for offset against future profits of the same trade. This gives a potential deferred tax asset of £1.7 million (2005 £1.6 million), which has not been recognised. An appropriate asset will be recognised when the Company can demonstrate a reasonable expectation of sufficient taxable profits to utilise the timing differences.

## 8. Property, plant and equipment

	<i>Plant and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Cost</i>			
At 1 January 2005	232	27	259
Additions	22	-	22
Disposals	(5)	(16)	(21)
	-----	-----	-----
At 31 December 2005 and 1 January 2006	249	11	260
Additions	2	-	2
	-----	-----	-----
At 31 December 2006	251	11	262
	-----	-----	-----
<i>Accumulated depreciation</i>			
At 1 January 2005	186	26	212
Charge for the year	30	1	31
On disposals	(5)	(16)	(21)
	-----	-----	-----
At 31 December 2005 and 1 January 2006	211	11	222
Charge for the year	17	-	17
	-----	-----	-----
At 31 December 2006	228	11	239
	-----	-----	-----
<i>Net book value</i>			
At 1 January 2005	46	1	47
	-----	-----	-----
At 31 December 2005 and 1 January 2006	38	-	38
	-----	-----	-----
At 31 December 2006	23	-	23
	-----	-----	-----

## 9. Intangible assets

	<i>Patent rights £000</i>	<i>Development costs £000</i>	<i>Total £000</i>
<i>Cost</i>			
At 1 January 2005	819	917	1,736
Additions	143	8	151
At 31 December 2005 and 1 January 2006	962	925	1,887
Additions	155	85	240
Written off	(303)	–	(303)
At 31 December 2006	814	1,010	1,824
<i>Accumulated amortisation:</i>			
At 1 January 2005	229	–	229
Charge for the year	56	–	56
At 31 December 2005 and 1 January 2006	285	–	285
Charge for the year	275	–	275
Written off	(303)	–	(303)
At 31 December 2006	257	–	257
<i>Net book value:</i>			
At 1 January 2005	590	917	1,507
At 31 December 2005 and 1 January 2006	677	925	1,602
At 31 December 2006	557	1,010	1,567

## 10. Available for sale investments

Wheelsure Holdings plc

	<i>31 December 2006 £000</i>	<i>31 December 2005 £000</i>
<i>Cost</i>		
At start of period	25	25
Additions	40	–
At end of period	65	25

In February 2006 the company participated in a rights issue funding exercise by Wheelsure Holdings plc. The Company paid £40,490 to the issue and retained its 12 per cent. interest in Wheelsure Holdings plc, while its average cost per share increased to 3.6p.

## 11. Loans receivable

Wheelsure Holdings plc

	<i>31 December 2006 £000</i>	<i>31 December 2005 £000</i>
9% Unsecured loan maturing in 2010	25	25

The Directors believe that the loan is fully recoverable and that no amounts are required to be set aside for impairment.

## 12. Investments in subsidiaries

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest</i>	<i>Nature of business</i>
Transense Technology Research Limited	England	100%	Dormant
Transense Steering Limited	England	100%	Dormant
Piezotec Limited	England	100%	Dormant

## 13. Trade and other receivables

	<i>31 December 2006 £000</i>	<i>31 December 2005 £000</i>
Trade receivables	576	519
Other receivables	20	26
Prepayments and accrued income	43	28
	<u>639</u>	<u>573</u>

The above receivables are expected to be recovered within twelve months.

## 14. Cash and cash equivalents

	<i>31 December 2006 £000</i>	<i>31 December 2005 £000</i>
Bank current account balances and cash	105	99
Fixed rate monthly deposits	1,285	2,300
	<u>1,390</u>	<u>2,399</u>

The carrying amount of these assets approximates to their fair value.

## 15. Credit risk

The company's principal financial assets are cash and cash equivalents, and trade and other receivables.

### *Credit risk*

Cash is held only in highly rated UK-based banks.

The company offers trade credit to customers in the normal course of business. The company operates stringent credit control procedures on potential customers before allowing credit.

### *Concentrations of credit risk*

The company trades with well established major companies and there is no significant concentration of credit risk.

## 16. Trade and other payables

	<i>31 December</i> <i>2006</i> <i>£000</i>	<i>31 December</i> <i>2005</i> <i>£000</i>
Trade payables	132	125
Other payables	40	29
Non-trade payables and accrued expenses	95	113
	<u>267</u>	<u>267</u>

Trade and other payables are all expected to be settled within twelve months.

## 17. Operating leases commitments

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, as set out below:

	<i>31 December</i> <i>2006</i> <i>£000</i>	<i>31 December</i> <i>2005</i> <i>£000</i>
Amounts due in less than one year	41	18
Amounts due between two and five years	103	144
	<u>144</u>	<u>162</u>

The company leases its business premises under operating leases. Leases are negotiated for an average term of 4 years and rentals are fixed for an average of 4 years.

## 18. Related party transactions

### *Transactions between related parties*

There have been no transactions between the company and its subsidiaries or between the company and other related parties, except for the key management personnel compensation disclosed below.

The remuneration of key management personnel during the year was as follows:

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Key management emoluments including social security costs	265	270
Company contributions to money purchase pension plans	18	18
Other post-employment benefits	–	30
Share-option awards	191	118
	<u>474</u>	<u>436</u>

## 19. Share capital

	<i>31 December 2006 £000</i>	<i>31 December 2005 £000</i>
<i>Authorised</i>		
70,000,000 ordinary shares of 10p each (2005: 70,000,000)	7,000	7,000
<i>Allotted, called up and fully paid</i>		
56,458,974 ordinary shares of 10p each (2005: 56,408,974)	5,646	5,641

At 31 December 2006 the following share options remained outstanding under the Company's Unapproved Discretionary Share Option Scheme.

<i>Number of options</i>	<i>Option price</i>	<i>Date of grant</i>	<i>Date of exercise</i>	
			<i>First</i>	<i>Last</i>
1,650,000	100p	24.5.05	24.5.08	23.5.10
100,000	52p	9.1.03	9.1.06	8.1.08

The options with a price of 100p may only be exercised if the market price of the shares is at least 200p at the date of the exercise.

In April 2006, an option on 50,000 shares was exercised at 26p per share, while an option on 600,000 shares at 472.5p lapsed in October, 2006.

At 31 December 2006 the following shares remained outstanding under an Enterprise Management Incentive Option Scheme.

<i>Number of options</i>	<i>Option price</i>	<i>Date of grant</i>	<i>Date of exercise</i>	
			<i>First</i>	<i>Last</i>
25,000	21.5p	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
673,792	50p	25.5.04	25.5.07	24.5.09
100,000	50p	16.6.04	16.6.07	15.6.09
20,000	50p	30.6.04	30.6.07	29.6.10
25,000	89.5p	19.5.05	19.5.08	18.5.10
360,000	100p	24.5.08	24.5.08	23.5.10
15,000	90.5p	1.8.05	1.8.08	31.7.10
15,000	64p	16.10.06	16.10.09	15.10.11

During the period an option on 15,000 shares at 90.5p was cancelled.

The options with a price of 100p may only be exercised if the market price of the shares is at least 200p at the date of the exercise.

## 20. Reserves

	<i>Share premium account £000</i>	<i>Accumulated profits/ (losses) £000</i>
At 1 January 2005	3,473	(5,761)
Share issue	2,895	
Loss for year	–	(1,046)
Share option scheme charge		172
At 31 December 2005	5,368	(6,635)
Share issue	8	–
Loss for year	–	(1,210)
Share option scheme charge	–	244
At 31 December 2006	5,376	(7,601)

The profit for the year ended 31 December 2005 was restated in 2006 for the adoption of FRS 20, a reconciliation is provided below:

	<i>Accumulated profits/(losses) £000</i>
Loss for the year ended 31 December 2005 per the audited 2005 financial statements	(874)
Restatement adjustment for the share option charge	(172)
Loss for the year ended 31 December 2005 per above	(1,046)

## 21. Basic and fully diluted loss per share

The calculation of basic loss per share is based on the loss after taxation of £1,210,000 (2005: £1,046,000) and on 56,446,782 ordinary shares being the weighted average number of shares in issue during the year, (2005: 54,339,796).

The calculation of fully diluted loss per share is based on the loss after taxation of £1,210,000 (2005: £1,046,000) and on 57,594,824 shares (2005: 55,482,838). The number of shares is based upon the weighted average number in issue during the year, together with 1,148,042 shares (2005: 1,143,042) deemed to have been issued at nil consideration pursuant to options outstanding.

## 22. Financial instruments

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

At 31 December 2006 the company's financial instruments comprised sterling cash of £1,285,000 on fixed rate monthly deposit (2005: £2,300,000) and the weighted average interest rate obtained for the year was 4% (2005: 3%).

Short term debtors and creditors are not treated as monetary assets or liabilities for the purposes of IAS 32 disclosures. There are no monetary assets or liabilities that are not denominated in the functional currency of the operations involved.



**23. Pensions**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund (Note 5). There are no prepayments or accruals at the year end (2005: £nil).

**24. Capital commitments**

There were no contractual commitments for future capital expenditure as at 31 December 2006 (2005: £nil).

**25. Contingent liabilities**

There were no contingent liabilities as at 31 December 2006 (2005: £nil).

**26. Events after balance sheet date**

There were no adjusting events or non-adjusting events after the balance sheet date.

**27. Explanation of transition to IFRSs (2007 Accounts basis)**

These are the company's first financial statements prepared in accordance with IFRSs. The last financial statements published under UK GAAP were for the year ended 31 December, 2005. The date of transition to IFRSs is therefore 1 January 2006.

The accounting policies set out in Note 2 have been consistently applied in preparing the financial statements for the year ended 31 December 2006, the comparative information as at 31 December 2005 and the opening IFRS balance sheet as at 1 January, 2006.

IFRS 1 requires an explanation of how the transition from UK GAAP to IFRSs has affected the company's reported financial position, financial performance and cash flows.

An explanation of how the transition from UK GAAP to IFRS has affected the company's income statement, balance sheet and net equity are summarised below. The conversion to IFRS has involved no impact on the income statement and cash flows of the Company although there are a number of presentational differences under IFRS.

	1 January 2006			31 December 2006		
	Published UK GAAP £000	IFRS adjustments £000	Restated under IFRS £000	Published UK GAAP £000	IFRS adjustments £000	Restated under IFRS £000
<b>Non-current assets</b>						
Property, plant and equipment	38		38	23		23
Intangible assets	1,602		1,602	1,567		1,567
Available for sale investments	25		25	65		65
Loans receivable	–	25	25	–	25	25
	<u>1,665</u>		<u>1,690</u>	<u>1,655</u>		<u>1,680</u>
<b>Current assets</b>						
Trade and other receivables	598	(25)	573	664	(25)	639
Cash and cash equivalents	2,399		2,399	1,390		1,390
	<u>2,997</u>		<u>2,972</u>	<u>2,054</u>		<u>2,029</u>
<b>Total assets</b>	<u>4,662</u>		<u>4,662</u>	<u>3,709</u>		<u>3,709</u>
<b>Current liabilities</b>						
Trade and other payables	(267)		(267)	(267)		(267)
Current tax liabilities	(21)		(21)	(21)		(21)
	<u>(288)</u>		<u>(288)</u>	<u>(288)</u>		<u>(288)</u>
<b>Non-current liabilities</b>						
Deferred tax liabilities	–		–	–		–
<b>Total liabilities</b>	<u>(288)</u>		<u>(288)</u>	<u>(288)</u>		<u>(288)</u>
<b>Net assets</b>	<u>4,374</u>		<u>4,374</u>	<u>3,421</u>		<u>3,421</u>
<b>Equity</b>						
Called-up equity share capital	5,641		5,641	5,646		5,646
Share premium account	5,368		5,368	5,376		5,376
Accumulated loss	(6,635)		(6,635)	(7,601)		(7,601)
<b>Total equity</b>	<u>4,374</u>	<u>–</u>	<u>4,374</u>	<u>3,421</u>	<u>–</u>	<u>3,421</u>

	1 January 2006 £000	31 December 2006 £000
Equity under UK GAAP	4,374	3,421
IFRS adjustments	–	–
Equity under IFRS	<u>4,374</u>	<u>3,421</u>

The following IFRS adjustments have been made in preparing the comparative figures as at 31 December 2006 and the opening IFRS balance sheet as at 1 January 2006

- i. Trade investments shown under UK GAAP have been re-designated as Available for Sale Investments under IFRS;
- ii. Loans receivable of £25,000 maturing in 2010, shown within Trade and Other Receivables under UK GAAP have been reclassified as Non-current assets under IFRS.

## **REPORT OF THE INDEPENDENT AUDITORS**

The full text of the financial accounts and audit report for 2004 and 2005 is reproduced below. The audited financial statements for 2004, which may be viewed on the Company's website [www.transense.co.uk](http://www.transense.co.uk), are incorporated by reference.

### **Independent Auditors' Report to the Shareholders of Transense Technologies plc**

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

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

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

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

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

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

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

#### **Basis of audit opinion**

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

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

#### **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 December 2005 and

of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**BDO Stoy Hayward LLP**

*Registered Auditors*

*Chartered Accountants*

Bromley

## PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

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

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

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

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

## BALANCE SHEET

as at 31 December 2005

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

## CASHFLOW STATEMENT

For the year ended 31 December 2005

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

## NOTES TO THE CASHFLOW STATEMENT

For the year ended 31 December 2005

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

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

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

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

### C Analysis of net funds

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



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

### 1. Accounting Policies

#### (a) Accounting Convention

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

#### (b) Turnover

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

#### (c) Depreciation

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

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

#### (d) Deferred Taxation

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

Deferred tax balances are not discounted.

#### (e) Group accounts and basis of consolidation

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

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

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

#### (f) Research and Development

Expenditure on research is expensed as incurred.

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

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

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

(g) ***Patent Fees***

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

(h) ***Valuation of investments***

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

(i) ***Pension Costs***

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

(j) ***Foreign Currency***

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

(k) ***Operating Leases***

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

(l) ***Liquid Resources***

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

## **2. Turnover**

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

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

All net assets are located in the United Kingdom.

## **3. Staff costs**

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

**4.**

	<i>2005</i>	<i>2004</i>
Management and technical	16	17
Administration	4	4
	<u>20</u>	<u>21</u>
	<i>£'000</i>	<i>£'000</i>
Staff costs (for the above employees)		
Wages and salaries	716	678
Social security costs	78	75
Pension Contributions	40	39
	<u>834</u>	<u>792</u>

**Directors' emoluments**

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

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Management remuneration	243	233
Fees as non-executive directors	44	39
Pension contributions	18	18
	<u>305</u>	<u>290</u>

(b) Emoluments of highest paid director:

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Emoluments	<u>80</u>	<u>77</u>
Amounts paid into the Company's defined contribution pension scheme	<u>7</u>	<u>7</u>

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

## Directors' Emoluments

Information on directors' emoluments is as follows:

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

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

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

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

Directors' interests in the UDSOS are:

	<i>At 1 January 2005</i>	<i>At 31 December 2005</i>	<i>Earliest Exercise Date</i>	<i>Exercise Price per Share</i>
A B Baldry	20,000	–		598 $\frac{3}{4}$ p
		100,000	24.05.08	100p
G D Eves	400,000	–		352 $\frac{1}{2}$ p
	120,000	–		598 $\frac{3}{4}$ p
	–	400,000	24.05.08	100p
R D Lohr	100,000	100,000	09.01.06	52p
	–	200,000	24.05.08	100p
H G Pearl	40,000	–		598 $\frac{3}{4}$ p
	–	100,000	24.05.08	100p
J A H Perry	600,000	–		352 $\frac{1}{2}$ p
	–	550,000	24.05.08	100p
J P Pither	50,000	50,000	01.03.06	26p
	–	50,000	24.05.08	100p
P J Woods	200,000	–		546 $\frac{3}{4}$ p
		200,000	24.05.08	100p

Directors' interests in the EMI are:

	<i>At</i> <i>1 January</i> <i>2005</i>	<i>At</i> <i>31 December</i> <i>2005</i>	<i>Earliest</i> <i>Exercise</i> <i>Date</i>	<i>Exercise</i> <i>Price per</i> <i>Share</i>
G D Eves	47,056	–		212½p
	–	90,000	24.05.08	100p
R D Lohr	48,780	–		205p
	–	90,000	24.05.08	100p
H G Pearl	40,000	–		212½p
	–	90,000	24.05.08	100p
J A H Perry	47,056	–		212½p
	–	90,000	24.05.08	100p

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

## 5. Operating loss

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

## 6. Interest receivable

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Bank interest	57	54
Other interest (Note 17(b))	1	
	----- 58	----- 54
	-----	-----

## 7. Taxation on loss on ordinary activities

	<i>2005</i> £'000	<i>2004</i> £'000
<i>Current tax</i>		
Adjustment in respect of previous periods	100	100

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

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

### *Factors that may affect future tax charges*

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

## 8. Intangible fixed assets

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

## 9. Tangible fixed assets

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

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

## 10. Fixed Asset Investment – Wheelsure Holdings plc

	<i>Total</i> £'000
(a) <i>Cost</i>	
At 1 January and 31 December 2005	25
(b) In February 2006 the Company participated in a rights issue funding exercise by Wheelsure. The Company paid £40,490 to the issue and retained its 12 per cent. interest in Wheelsure, while its average cost per share increased to 3.6p. The rights issue price was 12p per share.	

## 11. Subsidiary undertakings

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

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

## 12. Debtors

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

### 13. Share capital

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

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

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

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

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

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

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

### 14. Reserves

	<i>Share premium account</i>	<i>Profit &amp; loss account</i>
	<i>£'000</i>	<i>£'000</i>
At 1 January, 2005	3,473	(5,761)
Issue of Shares	1,895	-
Loss for the year	-	(874)
<b>At 31 December, 2005</b>	<b>5,368</b>	<b>(6,635)</b>
	-----	-----

### 15. Loss per Share

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

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



## 16. Reconciliation of Movement in Shareholders' Funds

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

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

## 17. Transactions with Directors and Associated Undertakings

- (a) Anthony Lonsdale, who resigned as a director of the Company in November 2005, is also a director of Sensor Technology Limited (Sensor). During the year the Company received invoices from Sensor in the sum of £52,000 (2004: £nil) in respect of commission on sales. Conversely the Company raised invoices to Sensor in the sum of £1,000 (2004: £1,000). All transactions were on an arms' length basis.
- (b) During the year the Company granted a £25,000 loan to its associated undertaking, Wheelsure Holdings Plc. Interest is charged at 9 per cent. per annum and the loan matures in 2007.

## 18. Financial Instruments

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

At 31 December, 2005 the Company's financial instruments comprised sterling cash of £2,300,000 on fixed rate monthly deposit (2004: £1,100,000), and the weighted average interest rate obtained for the year was 3% per cent. (2004: 3% per cent.).

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

## 19. Pensions

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

## 20. Commitments under Operating Leases

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

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



We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 22 October 2007, a true and fair view of the state of affairs of Bishop Technology Group Limited as at the dates stated and of its losses, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with IFRS as described in note 1.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies

Yours faithfully

## Bishop Technology Group Limited

### Income statements

For the three years ended 30 June 2007

		<i>Consolidated</i>		
		<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Notes</i>	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
<b>Revenue from continuing operations</b>				
Sale of goods	3	18,662	20,692	16,582
Other revenue	3	8,877	8,823	8,558
		<u>27,539</u>	<u>29,515</u>	<u>25,140</u>
<b>Other income</b>	4	1,477	1,398	787
<b>Expenses</b>				
Cost of sales of goods		(12,681)	(13,597)	(10,687)
Other expenses from ordinary activities				
Administration		(10,259)	(11,591)	(12,658)
Marketing		(759)	(229)	(250)
Occupancy		(947)	(658)	(708)
Research and development		(2,922)	(2,456)	(2,474)
Other		(1,408)	(1,242)	(1,716)
Finance costs	5	(1,127)	(765)	(136)
Share of net profits of joint venture accounted for using the equity method	30	2,729	2,496	943
		<u>1,642</u>	<u>2,871</u>	<u>(1,759)</u>
<b>Profit/(loss) before income tax</b>		1,642	2,871	(1,759)
Income tax expense	6	(278)	(608)	204
		<u>1,364</u>	<u>2,263</u>	<u>(1,555)</u>

The above income statements should be read in conjunction with the accompanying notes.

## Bishop Technology Group Limited

### Balance sheets

As at 30 June 2007

		<i>2005</i>	<i>Consolidated</i>	
	<i>Notes</i>	<i>Au\$'000</i>	<i>2006</i>	<i>2007</i>
			<i>Au\$'000</i>	<i>Au\$'000</i>
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment	12	11,800	10,834	7,751
Intangible assets	13	28	10	–
Investments accounted for using the equity method	11	8,516	11,878	13,807
Deferred income tax	10	275	261	823
Receivables	10	1,774	1,673	1,620
<b>Total non-current assets</b>		<u>22,393</u>	<u>24,656</u>	<u>24,001</u>
<b>Current assets</b>				
Inventories	9	2,532	2,280	3,709
Trade and other receivables	8	5,977	7,283	5,261
Cash and cash equivalents	7	802	737	420
Total current assets		<u>9,311</u>	<u>10,300</u>	<u>9,390</u>
<b>Total assets</b>		<u>31,704</u>	<u>34,956</u>	<u>33,391</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	14	2,750	3,191	3,664
Borrowings	15	4,308	5,464	7,116
Provisions	16	615	815	811
Deferred income	17	2,980	2,946	3,921
Total current liabilities		<u>10,653</u>	<u>12,416</u>	<u>15,512</u>
<b>Non-current liabilities</b>				
Borrowings	18	5,296	4,135	2,824
Provisions	19	311	216	246
Deferred income	20	9,024	9,111	7,895
Total non-current liabilities		<u>14,631</u>	<u>13,462</u>	<u>10,965</u>
<b>Total liabilities</b>		<u>25,284</u>	<u>25,878</u>	<u>26,477</u>
<b>Net assets</b>		<u>6,420</u>	<u>9,078</u>	<u>6,914</u>
<b>EQUITY</b>				
Issued share capital	21	7,922	7,922	7,922
Reserves	22(a)	(726)	(331)	(940)
Retained profits/(accumulated losses)	22(b)	(776)	1,487	(68)
<b>Total equity</b>		<u>6,420</u>	<u>9,078</u>	<u>6,914</u>

The above balance sheets should be read in conjunction with the accompanying notes.

## Bishop Technology Group Limited

### Statements of changes in equity

For the year ended 30 June 2007

		<i>Consolidated</i>		
		<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Notes</i>	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
<b>Total equity at the beginning of the financial year</b>		5,532	6,420	9,078
Exchange differences on translation of foreign operations	22(a)	(726)	395	(609)
<b>Net income recognised directly in equity</b>		(726)	395	(609)
<b>Profit/(loss) for the year</b>	22(b)	1,364	2,263	(1,555)
<b>Total recognised income and expense for the year</b>		638	2,658	(2,164)
Transactions with equity holders in their capacity as equity holders:				
Reversal of dividend provided in prior year	23(b)	250	–	–
<b>Total equity at the end of the financial year</b>		6,420	9,078	6,914

The above statements of changes in equity should be read in conjunction with the accompanying notes.

## Bishop Technology Group Limited

### Cash flow statements

For the year ended 30 June 2007

		<i>Consolidated</i>		
		<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Notes</i>	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
<b>Cash flows from operating activities</b>				
Receipts from customers (inclusive of goods and services tax)		32,675	29,577	27,048
Payments to suppliers and employees (inclusive of goods and services tax)		(28,910)	(26,683)	(25,413)
		3,765	2,894	1,635
Interest received		356	188	157
Interest paid		(604)	(693)	(731)
Tax paid				(204)
<b>Net cash inflow/(outflow) from operating activities</b>	31	<b>3,517</b>	<b>2,389</b>	<b>857</b>
<b>Cash flows from investing activities</b>				
Payments for property, plant and equipment		(1,804)	(1,601)	(348)
Payments for investment in joint venture		–	(850)	(1,169)
Proceeds from sale of property, plant and equipment		77	2	1
Repayment of loans by related parties		–	–	–
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(1,727)</b>	<b>(2,449)</b>	<b>(1,516)</b>
<b>Cash flows from financing activities</b>				
Loans from related parties		–	–	–
Lease payments		(933)	(966)	(802)
Proceeds from borrowings		1,702	1,445	2,410
Repayment of borrowings		(2,574)	(652)	(1,148)
Dividends paid to company's shareholders		(250)	–	–
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(2,055)</b>	<b>(173)</b>	<b>460</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(265)</b>	<b>(233)</b>	<b>(199)</b>
Cash and cash equivalents at the beginning of the financial year		(719)	(984)	(1,217)
<b>Cash and cash equivalents at end of year</b>	7	<b>(984)</b>	<b>(1,217)</b>	<b>(1,416)</b>
Non-cash financing and investing activities	32			

The above cash flow statements should be read in conjunction with the accompanying notes.

## Contents of the notes to the financial statements

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## **1 Summary of significant accounting policies**

### **(a) Reporting entity**

Bishop Technology Group Limited is a company incorporated in Australia. The registered office is 10 Waterloo Road North Ryde NSW Australia 2113.

The principal continuing activities of the consolidated entity consists of the development, manufacture and licensing of various component parts used in the automotive industry.

### **(b) Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. These IFRSs have been adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS regulation. Previously, the annual financial statements were prepared under Australian GAAP.

The financial statements have been prepared under the historical cost convention on a going concern basis, using Australian Dollars, which is both the presentation currency and the functional currency of the company. All figures shown have been rounded to the nearest thousand.

The significant accounting policies adopted are set out below. These have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 July 2004 for the purposes of the transition to IFRS.

### **(c) Significant accounting judgements and sources of estimation uncertainty**

In applying the company's accounting policies, management makes certain judgements and estimations:

- Judgements include classification of transactions between the income statement and balance sheet;
- Estimations focus on areas such as carrying values and estimated lives.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Adequate separation of duties where possible and published policies and procedures to assist in mitigating risk. Management are made aware of risks to business and the formation of the audit committee in 2006 oversees the management of risk and risk related areas within the business.

### **(d) IFRS transitional arrangements**

In terms of IFRS 1, First-time Adoption of International Financial Reporting Standards, the date of transition for the 2006 financial statements was 1 July 2004.

## **1 Summary of significant accounting policies (continued)**

### **(e) *Effect of transition to IFRS***

Reconciliations of the Income Statement for the year ended 30 June 2005 and the Balance Sheet as at 1 July 2004 and 30 June 2005 to the previously published Australian information, together with explanations of the reconciling items, are given in Note 26 to the financial statements.

The following IFRSs and IFRICs are effective for periods commencing after the date of these financial statements, but the company has not opted for early adoption of these:

- IFRS 7 Financial instruments: Disclosure; and the related amendments to IAS 1 on capital disclosures
- IFRIC 10 Interim reporting and impairments

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the company.

### **(f) *Principles of consolidation***

#### **(i) *Subsidiaries***

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bishop Technology Group Limited (“company” or “parent entity”) as at 30 June 2007 and the results of all subsidiaries for the year then ended. Bishop Technology Group Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

The consolidated entity applies a policy of treating transactions with minority interests as transactions with parties external to the consolidated entity. Disposals to minority interests result in gains and losses for the consolidated entity that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

The purchase method of accounting is used to account for all subsidiaries, including those involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

## **1 Summary of significant accounting policies (continued)**

### **(f) Principles of consolidation (continued)**

#### **(i) Subsidiaries (continued)**

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(n)). If the cost of acquisition is less than the consolidated entity's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

#### **(ii) Joint ventures**

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

The consolidated entity's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the consolidated entity and its associates are eliminated to the extent of the consolidated entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

### **(g) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

### **(h) Foreign currency translation**

#### **(i) Functional and presentation currency**

Items included in the financial statements of each of the consolidated entity's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Bishop Technology Group Limited's functional and presentation currency.

## **1 Summary of significant accounting policies (continued)**

### **(h) Foreign currency translation (continued)**

#### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary assets and liabilities of the controlled entities and associates have been translated at historical rates.

#### **(iii) Group companies**

The results and financial position of all the consolidated entities and associates in United States and Germany (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- monetary assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- non monetary assets and liabilities for each balance sheet presented are translated at the closing rate at historical rates;
- income and expenses for each income statement are translated at the rates prevailing on the transaction dates except for items relating to non-monetary assets and liabilities that have been translated at historical rates.
- exchange differences on translation have been brought to account in the foreign currency translation reserve.

#### **(i) Revenue recognition**

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have been passed to the carrier or customer.

License income is recognised on a straight-line basis over the period of the license.

#### **(j) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

Bishop Technology Group Limited and its wholly-owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision.

## **1 Summary of significant accounting policies (continued)**

### **(j) *Income tax (continued)***

#### *Tax consolidation legislation*

The head entity, Bishop Technology Group Limited, and the controlled entities in the tax consolidated group continue to account for their own deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

### **(k) *Leases***

Leases of property, plant and equipment where the consolidated entity has substantially all the risks and rewards of ownership are classified as finance leases (note 13). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The lease assets held at the reporting date are being amortised over 5 years.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

The costs of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the group, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 5 years.

### **(l) *Impairment of assets***

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### **(m) *Cash and cash equivalents***

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with short periods to maturity which are readily convertible to cash and are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## 1 Summary of significant accounting policies (continued)

### (n) *Trade receivables*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

### (o) *Inventories*

#### (i) *Raw materials and stores, work in progress and finished goods*

Stock on hand (stores) is valued at the lower of cost and net realisable value.

#### (ii) *Work in progress*

Work in progress are valued at cost which includes labour, materials and overhead. Costs are assigned based upon actual hours incurred. Where work in progress is completed and the customers accept the goods, revenue and cost of that contracts are recognised at the time of the acceptance.

### (p) *Property, plant and equipment*

Land is stated at cost. Property, plant and equipment (including buildings) is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method over their estimated useful lives, as follows:

– Buildings	33 years
– Equipment	5 years
– Motor Vehicles	4 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

### (q) *Intangible assets*

#### (i) *Goodwill*

On acquisition of some, or all, of the assets of another entity or, in the case of an investment in a controlled entity, on acquisition of some, or all, of the equity of that controlled entity, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill.

## **1 Summary of significant accounting policies (continued)**

### **(q) Intangible assets (continued)**

#### **(ii) Patents, licences and agreements**

Identifiable intangible assets carried forward in the balance sheet relate to major product processes or technology which have been assessed as economically and commercially viable. Costs are deferred and amortised on straight line basis over the relevant periods in which revenues are expected to be generated which vary from 10 -15 years. Where future revenues cannot be assured beyond reasonable doubt, a write-down of intangible assets is made.

### **(r) Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(s) Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred.

Borrowing costs include:

- interest on bank overdrafts and short term and long term borrowings
- amortisation of discounts or premiums relating to borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings and
- finance lease charges.

### **(t) Provisions**

Provisions for service warranties are made for the estimated liability on all products still under warranty at balance date. The amount of the provisions is the present value of the estimated cash flows required to settle the warranty obligations, having regard to service warranty experience over the last five years and risks of the warranty obligations.

### **(u) Employee benefits**

#### **(i) Wages and salaries and annual leave**

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### **(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of estimated future cash flows. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

#### **(iii) Pensions**

In Australia under the Superannuation Guarantee Law company must contribute 9% of employee salary to a Superannuation Fund. Bishop Technology Group Limited contributes that amount to the Bishop Staff Superannuation Fund. In the USA the company provides pension plan for all qualifying employees. The Company contributes 3 per cent. and that amount is matched up to 5 per cent. by employees contribution. The company also provides a plan for medical expense reimbursement.

All pension costs are accounted on an accruals basis.

## **1 Summary of significant accounting policies (continued)**

### **(v) *Share capital***

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **(w) *Dividends***

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

### **(x) *Goods and Services Tax (GST)***

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

### **(y) *Research and development***

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

### **(z) *Research and development grants***

Grants receivable from government bodies relating to the consolidate entity's research and development activities are accounted for on an accrual basis. The group received funds under the ACIS Scheme, a government scheme to promote R&D within the Australian Automotive Industry. As these funds are based upon actual R&D spend within the Australian entities of the group, such grants are recognised as revenue in the same period in which the expenses were incurred.



## 2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) *Critical accounting estimates and assumptions*

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (b) *Critical judgements in applying the entity's accounting policies*

There are no judgements at 30 June 2007 which have a critical impact on the financial statements.

## 3 Revenue

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
Sales revenue			
Sale of goods	18,662	20,692	16,582
Other revenue			
Royalties	7,185	6,843	5,388
License fee	829	1,200	2,154
Other revenue	863	780	1,016
	8,877	8,823	8,558
	27,539	29,515	25,140

## 4 Other income

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
Interest	356	188	157
Sale of ACIS credits	1,107	1,210	618
Net gain on disposal of property, plant and equipment	14	-	12
	1,477	1,398	787

## 5 Expenses

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
<b>Net gains and expenses</b>			
<b>Profit before income tax includes the following specific expenses:</b>			
<i>Depreciation</i>			
Buildings	76	75	76
Plant and equipment	1,758	1,625	1,728
Plant and equipment under finance leases	770	695	480
Motor vehicles	7	6	5
Total depreciation	<u>2,611</u>	<u>2,401</u>	<u>2,289</u>
<i>Amortisation</i>			
Patents and trademarks	17	18	10
Total amortisation	<u>17</u>	<u>18</u>	<u>10</u>
<i>Finance costs</i>			
Interest and finance charges paid/payable/(received)	1,127	765	136
Finance costs expensed	<u>1,127</u>	<u>765</u>	<u>136</u>
<i>Net loss on disposal of property, plant and equipment</i>	–	16	51
<i>Defined contribution superannuation expense</i>		–	–
<i>Employee benefits expense</i>	13,040	12,431	
<i>Research and development</i>	2,922	2,456	2,474
<i>Impairment of plant and equipment</i>	–	325	398

The impairment of plant and equipment of Au\$398,000 (2006: Au\$325,000) relates to the write down of equipment in the US. This provision was required as it was deemed that the discounted future cashflows of the assets were less than their carrying value

## 6 Income tax expense

	<i>2005</i>	<i>Consolidated</i> <i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Current tax	561	630	378
Deferred tax	(283)	(22)	(582)
	<u>278</u>	<u>608</u>	<u>(204)</u>
(a) <b><i>Tax losses</i></b>			
Unused tax losses for which no deferred tax asset has been recognised	18,120	17,847	18,847
Potential tax benefit @ 30%	<u>5,436</u>	<u>5,354</u>	<u>5,654</u>

### (b) ***Tax consolidation legislation***

Bishop Technology Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group did not enter into a tax sharing agreement or tax funding agreement.

### **Reconciliation of effective tax rate**

	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Profit before taxation	1,642	2,871	(1,759)
Tax using the Australian corporation tax rate of 30% (2006 : 30%, 2005: 30%)	493	862	(528)
Non taxable income	(345)	(360)	(586)
Non-deductible expense	937	799	1,054
Unrealised exchange gains/losses	122	45	88
Share of net profit of associates	(819)	(749)	(283)
Effect of lower rates of tax paid by joint ventures	(110)	11	51
Total tax expense	<u>278</u>	<u>608</u>	<u>(204)</u>

## 7 Current assets – Cash and cash equivalents

	<i>2005</i>	<i>Consolidated</i> <i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Cash at bank and in hand	403	721	146
Deposits at call	399	16	274
	<u>802</u>	<u>737</u>	<u>420</u>

### (a) *Reconciliation to cash at the end of the year*

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	<i>2005</i>	<i>Consolidated</i> <i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Balances as above	802	737	420
Bank overdrafts (note 15)	(1,786)	(1,954)	(1,836)
Balances per statement of cash flows	<u>(984)</u>	<u>(1,217)</u>	<u>(1,416)</u>

### (b) *Fair value*

The carrying amount for cash and cash equivalents equals the fair value.

## 8 Current assets – Trade and other receivables

	<i>2005</i>	<i>Consolidated</i> <i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
<b>Net trade receivables</b>			
Trade receivables	4,336	5,517	4,135
Provision for doubtful receivables	(16)	(7)	(43)
	<u>4,320</u>	<u>5,510</u>	<u>4,092</u>
Other receivables	1,657	1,773	1,169
	<u>5,977</u>	<u>7,283</u>	<u>5,261</u>

## 9 Current assets – Inventories

	2005	Consolidated 2006	2007
	Au\$'000	Au\$'000	Au\$'000
<i>Work in progress</i>			
– at cost	2,170	1,435	2,409
<i>Finished goods</i>			
– at cost	362	845	1,300
	<u>2,532</u>	<u>2,280</u>	<u>3,709</u>

### (a) *Inventory expense*

Inventories recognised as an expense during the year ended 30 June 2007 amounted to Au\$10,826,118 (2006: Au\$13,596,575, 2005: Au\$12,681,189).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2007 amounted to Au\$241,897 (2006: Au\$50,182, 2005: Au\$NIL). The expense has been included in 'cost of sales of goods' in the income statement.

## 10 Non-current assets – Receivables

	2005	Consolidated 2006	2007
	Au\$'000	Au\$'000	Au\$'000
Deferred tax	275	261	823
Related party receivable	1,774	1,673	1,620

## 11 Non-current assets – Investments accounted for using the equity method

	2005	Consolidated 2006	2007
	Au\$'000	Au\$'000	Au\$'000
Interest in joint ventures	8,516	11,878	13,807

### (a) *Interest in joint ventures*

The interests in the joint ventures are accounted for in the consolidated financial statements using the equity method of accounting.

## 12 Non-current assets – Property, plant and equipment

<i>Consolidated</i>	<i>Plant and equipment under construction Au\$'000</i>	<i>Freehold land Au\$'000</i>	<i>Freehold buildings Au\$'000</i>	<i>Plant and equipment Au\$'000</i>	<i>Motor vehicles Au\$'000</i>	<i>Leased plant &amp; equipment Au\$'000</i>	<i>Total Au\$'000</i>
<b>At 1 July 2004</b>							
– Cost	566	700	2,395	20,375	113	6,376	30,525
Accumulated depreciation	–	–	(895)	(11,332)	(83)	(4,899)	(17,209)
Net book amount	566	700	1,500	9,043	30	1,477	13,316
<b>Year ended 30 June 2005</b>							
Opening net book amount	566	700	1,500	9,043	30	1,477	13,316
Exchange differences	–	–	–	(645)	–	–	(645)
Additions	–	–	8	542	9	1,244	1,803
Disposals	–	–	–	(45)	(17)	(1)	(63)
Transfers	(566)	–	–	566	–	–	–
Depreciation charge	–	–	(76)	(1,758)	(7)	(770)	(2,611)
Closing net book amount	–	700	1,432	7,703	15	1,950	11,800
<b>At 30 June 2005</b>							
– Cost	–	700	2,403	19,904	22	5,706	28,735
Accumulated depreciation	–	–	(971)	(12,201)	(7)	(3,756)	(16,935)
Net book amount	–	700	1,432	7,703	15	1,950	11,800
<b>Year ended 30 June 2006</b>							
Opening net book amount	–	700	1,432	7,703	15	1,950	11,800
Exchange differences	–	–	–	176	–	–	176
Additions	61	–	–	833	–	708	1,602
Disposals	–	–	–	408	–	(408)	–
Transfers	–	–	–	(343)	–	–	(343)
Depreciation charge	–	–	(75)	(1,625)	(6)	(695)	(2,401)
Closing net book amount	61	700	1,357	7,152	9	1,555	10,834
<b>At 30 June 2006</b>							
– Cost	61	700	2,403	23,110	147	4,850	31,271
Accumulated depreciation	–	–	(1,046)	(15,958)	(138)	(3,295)	(20,437)
Net book amount	61	700	1,357	7,152	9	1,555	10,834
<b>Year ended 30 June 2007</b>							
Opening net book amount	61	700	1,357	7,152	9	1,555	10,834
Exchange differences	–	–	–	(643)	–	–	(643)
Additions	–	–	–	287	–	–	287
Disposals	–	–	–	(40)	–	–	(40)
Transfers	(61)	–	–	61	–	–	–
Impairment	–	–	–	(398)	–	–	(398)
Depreciation charge	–	–	(76)	(1,728)	(5)	(480)	(2,289)
Closing net book amount	–	700	1,281	4,691	4	1,075	7,751
<b>At 30 June 2007</b>							
– Cost	–	700	2,403	23,110	147	4,850	31,210
Accumulated depreciation	–	–	(1,122)	(18,419)	(143)	(3,775)	(23,459)
Net book amount	–	700	1,281	4,691	4	1,075	7,751

### 13 Non-current assets – Intangible assets

<i>Consolidated</i>	<i>Goodwill</i> <i>Au\$'000</i>	<i>Patents, trademarks and other rights</i> <i>Au\$'000</i>	<i>Total</i> <i>Au\$'000</i>
<b>At 1 July 2004</b>			
Cost	1,202	4,227	5,429
Accumulated amortisation and impairment	(1,202)	(4,182)	(5,384)
Net book amount	–	45	45
<b>Year ended 30 June 2006</b>			
Opening net book amount	–	45	45
Amortisation charge	–	(17)	(17)
Closing net book amount	–	28	28
<b>At 1 July 2005</b>			
Cost	1,202	7,390	8,592
Accumulated amortisation and impairment	(1,202)	(7,362)	(8,564)
Net book amount	–	28	28
<b>Year ended 30 June 2006</b>			
Opening net book amount	–	28	28
Amortisation charge	–	(18)	(18)
Closing net book amount	–	10	10
<b>At 30 June 2006</b>			
Cost	1,202	7,390	8,592
Accumulated amortisation and impairment	(1,202)	(7,380)	(8,582)
Net book amount	–	10	10
<b>Year ended 30 June 2007</b>			
Opening net book amount	–	10	10
Amortisation charge	–	(10)	(10)
Closing net book amount	–	–	–
<b>At 30 June 2007</b>			
Cost	1,202	7,390	8,592
Accumulated amortisation and impairment	(1,202)	(7,390)	(8,592)
Net book amount	–	–	–

#### 14 Current liabilities – Trade and other payables

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Trade payables	979	956	1,463
Employee entitlements	641	613	598
Other payables	1,130	1,622	1,603
	<u>2,750</u>	<u>3,191</u>	<u>3,664</u>

#### 15 Current liabilities – Borrowings

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
<b>Secured</b>			
Bank overdrafts	1,786	1,954	1,836
Bank loans	802	1,148	1,060
Commercial bills	650	1,340	3,750
Lease liabilities (note 15)	966	712	470
Notes payable	104	310	–
	<u>4,308</u>	<u>5,464</u>	<u>7,116</u>
<b>Unsecured</b>			
Loans from related parties	–	–	–
	<u>4,308</u>	<u>5,464</u>	<u>7,116</u>

Debt can be analysed as falling due:

In one year or less, or on demand	4,308	5,464	7,116
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The weighted average interest rates paid were as follows

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>%</i>	<i>%</i>	<i>%</i>
Bank overdrafts	9.5%	10.0%	8.7%
Bank loans	5.4%	5.4%	5.4%
Commercial Bills	7.9%	8.5%	7.9%

#### Terms and repayment schedule

Long term borrowings represents:

- US dollar denominated loan, interest and capital is repaid quarterly over a fixed term ending at the 30 June 2010. The loan is secured on the premises situated in North Ryde.
- Commercial bills repaid quarterly at a fixed amount of Au\$125,000 ending on 30 April 2008

Bank overdraft facilities of Au\$3,500,000 (2006: Au\$2,000,000 ; 2005 : Au\$2,000,000) were available to the group.



## 15 Current liabilities – Borrowings (continued)

### Finance lease liabilities

Finance lease liabilities are payable as follows:

#### 2005

	<i>Minimum Lease payment Au\$'000</i>	<i>Interest Au\$'000</i>	<i>Principal Au\$'000</i>
Less than one year	1,085	119	966
Between one and five years	1,228	106	1,122
After five years	–	–	–
Total	<u>2,313</u>	<u>225</u>	<u>2,088</u>

#### 2006

	<i>Minimum Lease payment Au\$'000</i>	<i>Interest Au\$'000</i>	<i>Principal Au\$'000</i>
Less than one year	907	195	712
Between one and five years	1,110	94	1,016
After five years	155	5	150
Total	<u>2,172</u>	<u>294</u>	<u>1,878</u>

#### 2007

	<i>Minimum Lease payment Au\$'000</i>	<i>Interest Au\$'000</i>	<i>Principal Au\$'000</i>
Less than one year	553	83	470
Between one and five years	1,004	88	916
After five years	–	–	–
Total	<u>1,557</u>	<u>171</u>	<u>1,386</u>

## 16 Current liabilities – Provisions

	<i>2005 Au\$'000</i>	<i>Consolidated 2006 Au\$'000</i>	<i>2007 Au\$'000</i>
Employee benefits	429	604	742
Service warranties	186	196	69
Other provisions	–	15	–
	<u>615</u>	<u>815</u>	<u>811</u>

**17 Current liabilities – Deferred income**

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Deferred license income	1,200	1,271	1,308
Other deferred income	1,780	1,675	2,613
	<u>2,980</u>	<u>2,946</u>	<u>3,921</u>

**18 Non-current liabilities – Borrowings**

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
<b>Secured</b>			
Bank loans	4,174	2,969	1,908
Lease liabilities (note 15)	1,122	1,166	916
	<u>5,296</u>	<u>4,135</u>	<u>2,824</u>

**19 Non-current liabilities – Provisions**

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Employee benefits	311	216	246

**20 Non-current liabilities – Deferred income**

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Deferred license income	9,024	9,111	7,895

**21 Contributed equity**

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>
(a) <b>Share capital</b>			
Authorised, allotted called up and fully paid			
Ordinary shares	6,720	6,720	6,720
	<u>6,720</u>	<u>6,720</u>	<u>6,720</u>
<i>Date</i>	<i>Details</i>	<i>Number of shares</i>	<i>Au\$'000</i>
30 June 2005, 2005 and 2007	Balance	6,720	7,922

**(b) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

**(c) Options**

172,298 options over unissued ordinary shares of Bishop Technology Group Limited were granted on 3 February 2000 to B F Grey, Managing Director and remain outstanding at the end of the year. There were no options exercised during the year.

## 22 Reserves and retained profits (accumulated losses)

	<i>2005</i>	<i>Consolidated</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>2006</i>	<i>2007</i>
		<i>Au\$'000</i>	<i>Au\$'000</i>
(a) <b>Reserves</b>			
Foreign currency translation reserve	(726)	(331)	(940)
	-----	-----	-----
		<i>Consolidated</i>	<i>2007</i>
		<i>2006</i>	<i>Au\$'000</i>
		<i>Au\$'000</i>	
<b>Movements:</b>			
<i>Foreign currency translation reserve</i>			
Balance 1 July	-	(726)	(331)
Consolidated Entity	(726)	395	(609)
	-----	-----	-----
Balance 30 June	(726)	(331)	(940)
	-----	-----	-----

### (b) Retained profits

Movements in retained profits/(accumulated losses) were as follows:

	<i>2005</i>	<i>Consolidated</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>2006</i>	<i>2007</i>
		<i>Au\$'000</i>	<i>Au\$'000</i>
Opening retained earnings/(accumulated losses)	(2,390)	(776)	1,487
Profit/(loss) for the year	1,364	2,263	(1,555)
Dividends provided for in previous year reversed	250	-	-
	-----	-----	-----
Balance 30 June	(776)	1,487	(68)
	-----	-----	-----

### (c) Nature and purpose of reserves

#### (i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

## 23 Dividends

### (a) Ordinary shares

No dividends have been declared or paid in the 2007 financial year (2006: Au\$NIL, 2005: Au\$NIL).

	<i>2005</i>	<i>Consolidated</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>2006</i>	<i>Au\$'000</i>
		<i>Au\$'000</i>	<i>Au\$'000</i>
Franking credits available for subsequent financial years based on a tax rate of 30 per cent. (2006: 30%, 2005: 30%)	—	—	—
	-----	-----	-----

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

## 24 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	<i>2005</i>	<i>Consolidated</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>2006</i>	<i>Au\$'000</i>
		<i>Au\$'000</i>	<i>Au\$'000</i>
(a) <b>Assurance services</b>			
<i>Audit services</i>			
PricewaterhouseCoopers Australian firm			
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	79	76	87
Related practices of PricewaterhouseCoopers Australian firm	36	25	23
Non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the consolidated entity	33	35	27
Total remuneration for audit services	----- 148	----- 136	----- 137
<i>Other assurance services</i>			
PricewaterhouseCoopers Australian firm			
Compliance services	—	15	—
IFRS accounting services	—	19	—
Other services	—	—	6
Total remuneration for other assurance services	----- —	----- 34	----- 6
Total remuneration for assurance services	----- 148	----- 170	----- 143

**24 Remuneration of auditors (continued)**

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
(b) <b>Taxation services</b>			
PricewaterhouseCoopers Australian firm			
Tax compliance services, including review of company income tax returns	36	29	40
Other tax consulting	68	23	–
Fees paid to non-PricewaterhouseCoopers audit firms	12	9	16
Total remuneration for taxation services	<u>116</u>	<u>61</u>	<u>56</u>

**25 Commitments**(a) **Lease commitments**

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:			
Within one year	804	941	817
Later than one year but not later than five years	2,484	2,193	1,220
	<u>3,288</u>	<u>3,134</u>	<u>2,037</u>
Representing:			
Non-cancellable operating leases	3,063	2,841	1,867
Future finance charges on finance leases (note 16)	225	293	170
	<u>3,288</u>	<u>3,134</u>	<u>2,037</u>

(i) **Operating leases**

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
Within one year	686	823	735
Later than one year but not later than five years	2,377	2,018	1,133
	<u>3,063</u>	<u>2,841</u>	<u>1,868</u>
Commitments not recognised in the financial statements	<u>3,063</u>	<u>2,841</u>	<u>1,868</u>

## 25 Commitments (continued)

### (b) Operating commitments

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
Expenditure for the supply of inventories contracted for:			
Within one year	31	-	-
	----- 31	----- -	----- -

### (c) Remuneration commitments

	<i>2005</i> <i>Au\$'000</i>	<i>Consolidated</i> <i>2006</i> <i>Au\$'000</i>	<i>2007</i> <i>Au\$'000</i>
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:			
Within one year	335	413	413
	----- 335	----- 413	----- 413

## 26 Related party transactions

### (a) Parent entities

The parent entity within the consolidated entity is Bishop Technology Group Limited. The ultimate Australian parent entity is Bishop Technology Group Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 27.

### (c) Transactions with joint ventures

During the year ended 30 June 2007, BMB Steering Innovation GmbH acquired Au\$2,832,000 (2006: Au\$6,775,000; 2005: Au\$1,309,000) of goods from the group and paid commission of AU\$111,000 (2006: Au\$130,000, 2005: Au\$109,000).

During the year ended 30 June 2007, Bishop Hando Steering Components Limited paid commission of Au\$181,000 (2006: \$100,000, 2005: nil).

In addition to this, there is a Euro based loan owing by BMB Steering Innovation GmbH to Bishop with balances outstanding and accrued interest as follows:

	<i>Loan</i> <i>(Au\$'000)</i>	<i>Accrued Interest</i> <i>(Au\$'000)</i>
30 June 2007	1,620	398
30 June 2006	1,673	791
30 June 2005	1,696	809

### (d) Transactions with key management personnel

The Directors of the company and their immediate relatives do not control any of the voting shares of the company. B.F. Grey, Managing Director, holds 172,298 options over unissued ordinary shares of Bishop Technology Group Limited (note 22(b)).

## 26 Related party transactions (continued)

The compensation of key management personnel (including the directors) and director fees paid to non-Executive Directors are as follows:

	<i>Salary and wages</i> <i>Au\$'000</i>	<i>Director Fees</i> <i>Au\$'000</i>
2007	606	110
2006	423	69
2005	505	77

## 27 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

<i>Name of entity</i>	<i>Country of incorporation</i>	<i>Class of shares</i>	<i>Equity holding</i>		
			<i>2005</i> %	<i>2006</i> %	<i>2007</i> %
Bishop Steering Technology Limited **	Australia	Ordinary	100	100	100
		Preference	100	100	100
Bishop Steering Technology Inc. *	United States	Ordinary	100	100	100
		Preference	100	100	100
Bishop Innovation Management Pty Limited **	Australia	Ordinary	100	100	100
Bishop Innovation Pty Limited **	Australia	Ordinary	100	100	100
Bishop Manufacturing Technology Limited **	Australia	Ordinary	100	100	100
Bishop Steering Technology GmbH	Germany	Ordinary	100	100	100

Bishop Technology Group Limited is the ultimate parent entity.

All controlled entities are directly controlled by Bishop Technology Group Limited with the exception of Bishop Innovation Management Pty Limited, Bishop Innovation Limited and Bishop Steering Technology GmbH which are wholly-owned by Bishop Steering Technology Limited in whose books the shares are recorded at Au\$4.00 (2006:Au\$4.00, 2005:Au\$4.00)

\* The controlled entity of which PricewaterhouseCoopers has not acted as auditor.

\*\* The controlled entity has been granted relief from the necessity to prepare financial statements in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

## 28 Deed of cross guarantee

Bishop Technology Group Limited, Bishop Steering Technology Limited, Bishop Innovation Management Pty Limited, Bishop Innovation Limited and Bishop Manufacturing Technology Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others.

## 29 Economic dependency

The normal operating activities of the consolidated entity depend to a significant extent on the receipt of income from Visteon and profits from the group's joint venture entity BMB Steering Innovation GmbH. During the year ended 30 June 2007, approximately 41 per cent. (2006 - 41 per cent., 2005 - 42 per cent.) of the consolidated entity's total revenue was derived from those sources. Additional sources of revenue are being sought to reduce future dependency on any particular licensee or customer.

### 30 Interest in joint ventures

The Group has a 50 per cent. interest in a joint venture BMB Steering Innovation GmbH, whose principal activity is the manufacture of steering racks. Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, revenues and expenses of the joint venture

The Group also has a 50 per cent. interest in a joint venture Bishop Hando Steering Components Limited, whose principal activity is the manufacture hydraulic power steering components. Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, revenues and expenses of the joint venture

Both joint ventures are accounted for under the equity method.

The Group's share of post-acquisition total recognised profit or loss in the above joint ventures for the year ended 30 June 2007 was Au\$943,000 (2006: Au\$2,496,000; 2005: Au\$2,729,000).

Summary financial information on joint ventures – 100 per cent.:

<i>Au\$'000</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Equity</i>	<i>Revenues</i>	<i>Profit/(loss)</i>
<b>2007</b>					
BMB Steering Innovation GmbH	78,559	37,320	41,238	43,499	2,093
Bishop Hando Components Limited	6,472	3,098	3,374	1,485	(240)
<b>2006</b>					
BMB Steering Innovation GmbH	54,439	29,436	25,003	40,913	4,514
Bishop Hando Components Limited	1,637	8	1,628	–	(3)
<b>2005</b>					
BMB Steering Innovation GmbH	50,135	31,327	18,808	39,900	7,546
Bishop Hando Components Limited	–	–	–	–	–

### 31 Reconciliation of profit (loss) after income tax to net cash inflow (outflow) from operating activities

	<i>Consolidated</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>Au\$'000</i>	<i>Au\$'000</i>
Profit/(loss) for the year	1,364	2,263	(1,555)
Depreciation and amortisation	2,629	2,418	2,301
Dividend declared and cancelled	–	–	–
Net loss/(gain) on sale of non-current assets	(14)	16	39
Impairment of plant and equipment	–	325	398
Share of profits of associates not received as dividends or distributions	(2,729)	(2,496)	(943)
Net exchange differences	(46)	220	273
Change in operating assets and liabilities			
(Increase)/decrease in trade and other receivables	3,697	(1,190)	1,515
Decrease in inventories	808	252	(1,429)
(Decrease)/increase in trade and other payables	(1,261)	424	473
(Decrease)/increase in deferred income	(946)	52	(241)
Increase/(decrease) in provisions	15	105	26
Net cash (outflow)/inflow from operating activities	<u>3,517</u>	<u>2,389</u>	<u>857</u>



**32 Non-cash investing and financing activities**

	<i>2005</i>	<i>Consolidated</i>	<i>2007</i>
	<i>Au\$'000</i>	<i>2006</i>	<i>Au\$'000</i>
		<i>Au\$'000</i>	<i>Au\$'000</i>
Acquisition of plant and equipment by means of finance leases	1,244	708	–
	<u>          </u>	<u>          </u>	<u>          </u>

## PART V

### PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The unaudited pro forma financial information has been prepared on the following basis:

#### Pro forma net assets

The pro forma net assets statement is based upon the Group's consolidated balance sheet as at 30 June 2007 as shown by the audited published accounts.

The unadjusted net assets information has been adjusted to reflect the effect of the transaction as if it had been undertaken at 30 June 2007.

	<i>Transense Technologies plc £'000</i>	<i>Bishop Technology Group Limited £'000</i>	<i>Fundraising £'000</i>	<i>Acquisition £'000</i>	<i>Proforma net assets £'000</i>
<b>ASSETS</b>					
<b>Non current assets</b>					
Property, plant and equipment	25	3,389	–	–	3,4126
Intangible assets	1,567	–	–	6,910	8,477
Deferred income tax	–	360	–	–	360
Investments accounted for using the equity method	–	6,037	–	–	6,037
Available for sale investments	65	–	–	–	65
Receivables	23	708	–	–	733
Other financial assets	–	–	–	–	–
<b>Total non current assets</b>	<b>1,680</b>	<b>10,494</b>	<b>–</b>	<b>6,910</b>	<b>19,084</b>
<b>Current assets</b>					
Cash and cash equivalents	1,390	184	5,696	(1,300)	5,970
Trade and other receivables	639	2,300	–	–	2,939
Inventories	–	1,622	–	–	1,622
<b>Total current assets</b>	<b>2,029</b>	<b>4,106</b>	<b>5,696</b>	<b>(1,300)</b>	<b>10,531</b>
<b>Total assets</b>	<b>3,709</b>	<b>14,600</b>	<b>5,696</b>	<b>5,610</b>	<b>29,615</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	(288)	(1,602)	–	–	(1,890)
Borrowings	–	(3,112)	–	–	(3,112)
Provisions	–	(355)	–	–	(355)
Deferred income	–	(1,714)	–	–	(1,714)
<b>Total current liabilities</b>	<b>(288)</b>	<b>(6,783)</b>	<b>–</b>	<b>–</b>	<b>(7,071)</b>
<b>Non current liabilities</b>					
Borrowings	–	(1,235)	–	–	(1,235)
Provisions	–	(107)	–	–	(107)
Deferred income	–	(3,452)	–	–	(3,452)
Total non current liabilities	–	(4,794)	–	–	(4,794)
<b>Total liabilities</b>	<b>(288)</b>	<b>(11,577)</b>	<b>–</b>	<b>–</b>	<b>(11,865)</b>
<b>Net assets</b>	<b>3,421</b>	<b>3,023</b>	<b>5,696</b>	<b>5,610</b>	<b>17,750</b>

	<i>Transense Technologies plc £'000</i>	<i>Bishop Technology Group Limited £'000</i>	<i>Fundraising £'000</i>	<i>Acquisition £'000</i>	<i>Proforma net assets £'000</i>
<b>EQUITY</b>					
Contributed equity	5,646	3,464	5,696	5,169	19,975
Reserves	5,376	(411)	–	411	5,376
Retained profits (accumulated losses)	(7,601)	(30)	–	30	(7,601)
<b>Total equity</b>	<b>3,421</b>	<b>3,023</b>	<b>5,696</b>	<b>5,610</b>	<b>17,750</b>

### Adjustments

The adjustments made in the pro forma net assets statement reflect the following items:

- The proceeds from the placing of £5,696,000 less expenses of £1,300,000 which have been utilised to fund the working capital requirements of the enlarged group.
- The acquisition of BTG for a consideration of Au\$19.7 million (circa £8.6 million) is settled via the issue of 37,535,553 ordinary shares at 23 pence.

The balance sheet was converted to GBP from Au\$ at a rate of 0.43725

### Goodwill calculation

	<i>£'000</i>
Goodwill calculation	
Price paid (Au\$19.7 million)	8,633
Expenses	1,300
	<u>9,933</u>
Net assets at acquisition	3,023
Goodwill	<u>6,910</u>

### Cash movements

	<i>£'000</i>
Total raised	5,696
Expenses	(1,300)
Acquisition (cash element)	–
Increase in cash	<u>4,396</u>

### Adjustments not included in the pro forma net assets statement

The following adjustments have been excluded from the pro forma net assets statement on the basis that they are directors' estimates and do not meet the conditions of paragraph 12.34 of the Listing Rules that all adjustments should be "factually supportable".

The pro forma net assets statement does not include any fair value adjustments that will be required to be made to the assets and liabilities of BTG – the difference between the net book value of net assets and the purchase price is assumed to be goodwill.

The pro forma net assets statement does not include any provision for the reorganisation or integration of BTG. The operations will continue in the same manner as before. There will be two important relocations and some increase in TRT office size. The Directors and the Proposed Directors estimate the total cost of reorganisation to be a maximum of £50,000.

The Directors and the Proposed Directors are of the opinion that the impact of their being unable to disclose the above amounts in the pro forma net assets statement is not such as to render the statement misleading. The directors are not aware of any other potential adjustments which would be appropriate in the context of the purpose of the pro forma financial information.

## PART VI

### ADDITIONAL INFORMATION

#### 1. Incorporation and status of the Company

- (a) The Company was incorporated and registered in England and Wales under the Act on 11 February 1985 with registered number 1885075 as a public company limited by shares under the name Demigold Public Limited Company. On 13 March 1985, the Company changed its name to Amphoterics Public Limited Company. On 4 October 1991, the Company changed its name to Transense Technologies plc.
- (b) The principal legislation under which the Company operates and under which the New Ordinary Shares will be issued is the Act and the regulations made thereunder.
- (c) The registered office of the Company is at 36 Elder Street, London, E1 6BT. The principal place of business of the Company is 66 Heyford Park, Upper Heyford, Bicester, Oxfordshire OX25 5HD, telephone number +44 1869 238 380.
- (d) The liability of the members of the Company is limited.
- (e) The address of the Company's website which discloses the information required by Rule 26 of the AIM Rules for Companies is [www.transense.co.uk](http://www.transense.co.uk).

#### 2. Share capital of the Company

- (a) At 31 December 2006, the authorised share capital of the Company was £7,000,000 divided into 70,000,000 Ordinary Shares with a nominal value of 10p each, of which 56,458,974 had been issued, credited as fully paid.
- (b) At 1 January 2004, the Company had 53,194,974 Ordinary Shares in issue. Changes in the amount of the issued share capital of the Company since 1 January 2004 are as follows:

<i>Date of Issue</i>	<i>Number of Ordinary Shares Issued</i>	<i>Price (pence)</i>	<i>Nature of Issue</i>
21 September 2004	200,000	25	Exercise of options
17 November 2004	264,000	25	Exercise of options
3 December 2004	100,000	62.5	Exercise of options
13 October 2005	2,650,000	85	New issue and placing
31 March 2006	50,000	26	Exercise of options
10 April 2007	100,000	52	Exercise of options
10 April 2007	25,000	21.5	Exercise of options
10 April 2007	10,000	23	Exercise of options
24 May 2007	274,192	50	Exercise of options

As at 30 June 2007, the Company had 56,868,166 Ordinary Shares in issue.

- (c) At the General Meeting, a special resolution will be proposed to:
  - (i) approve the Acquisition, in accordance with the terms of the Acquisition Agreement;
  - (ii) increase the authorised share capital from £7,000,000 to £18,000,000 by the creation of an additional 110,000,000 Ordinary Shares ranking *pari passu* in all respects with the Existing Ordinary Shares;
  - (iii) authorise the Directors generally and unconditionally in accordance with section 80 of the Act to allot relevant securities (as defined in sub-section 80(2) of the Act) up to (a) an aggregate nominal amount of £6,229,944.50 pursuant to the Placing and the Acquisition and (b) an aggregate nominal amount equal to £3,575,028.33 (provided that, to the extent that such

nominal amount represents more than one-third of the nominal value of the issued share capital immediately following Second Admission, the Directors undertake not to exercise such power), in each case to such persons and at such times and on such terms as they think proper, such authority to expire, unless sooner revoked or varied by the Company in general meeting, at the conclusion of the next annual general meeting of the Company, but so as to enable the Company before such date to make offers or agreements which would or might require relevant securities to be allotted after such date and to enable the Directors to allot relevant securities in pursuance of such offers or agreements as if the authority conferred thereby had not expired, such authority to be in substitution (with effect from First Admission) for all existing authorities granted to the Directors in respect of the allotment of relevant securities, without prejudice to any allotments made pursuant to the terms of such authorities;

- (iv) to empower the Directors to allot equity securities (as defined in sub-section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 2(c)(iii) above as if sub-section 89(1) of the Act did not apply to any such allotment, such power being limited to:
  - (a) the allotment of equity securities in connection with an issue or offer by way of rights in favour of holders of equity securities and any other person entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange;
  - (b) the allotment of up to 24,763,892 Ordinary Shares pursuant to the Placing; and
  - (c) the allotment (other than pursuant to the power referred to in paragraphs 2(c)(iv)(a) and 2(c)(iv)(b) above) of equity securities up to an aggregate nominal amount of £595,838.06 (provided that to the extent that such nominal amount represents more than 5 per cent. of the nominal value of the issued share capital immediately following Second Admission, the Directors undertake not to exercise such power),

save that the Company may, before expiry of that authority, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offers or agreements as if such authority had not expired, such authority to expire on the conclusion of the next Annual General Meeting of the Company, or after 15 months, whichever comes first; and

- (v) to adopt the 2007 Unapproved Scheme, further details of which are set out in paragraph 4.4 of this Part VI.
- (d) With effect immediately upon First Admission, and pursuant to the authority given by the Resolution, up to 130,435 new Ordinary Shares will be allotted at the Placing Price pursuant to the First Placing. With effect immediately upon Second Admission, and pursuant to the authority given by the Resolution, up to 24,633,457 new Ordinary Shares will be allotted at the Placing Price pursuant to the Second Placing. With effect immediately upon Second Admission, and pursuant to the authority given by the Resolution, the Consideration Shares will be allotted to certain Vendors pursuant to the Acquisition Agreement.
- (e) The Company's authorised and issued share capital, at the date of this document, as it is expected to be immediately following First Admission (assuming all of the Placing Shares are placed) and as it is expected to be immediately following Second Admission (assuming all the Placing Shares are placed):

	<i>At the date of this document</i>		<i>Following First Admission</i>		<i>Following Second Admission</i>	
	<i>Amount</i>	<i>Number of Ordinary Shares</i>	<i>Amount</i>	<i>Number of Ordinary Shares</i>	<i>Amount</i>	<i>Number of Ordinary Shares</i>
Authorised	£7,000,000	70,000,000	£18,000,000	180,000,000	£18,000,000	180,000,000
Issued and fully paid	£5,686,816.60	56,868,166	£5,699,860.10	56,998,601	£11,916,761.10	119,167,611

(f) Share capital reconciliation:

	<i>At 1 January 2006</i>	<i>At 31 December 2006</i>
Issued Ordinary Shares	56,408,974	56,458,974

- (g) Save as disclosed in this Part VI, no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries in the three years immediately preceding the date of this document.
- (h) The Existing Ordinary Shares are currently admitted to trading on AIM. Save for this trading facility for the Existing Ordinary Shares and the application for the Existing Ordinary Shares to be re-admitted to trading on AIM and for the New Ordinary Shares to be admitted to trading on AIM, the Ordinary Shares have not been listed or traded on and no application has been or is being made for the admission of the Existing Ordinary Shares or the New Ordinary Shares to listing or trading on any other stock exchange or securities market.
- (i) With effect from First Admission, all of the Ordinary Shares will be in registered form and, enabled for settlement in CREST, the Ordinary Shares will be capable of being held in uncertificated form. No temporary documents of title will be issued.
- (j) Up to 24,763,892 new Ordinary Shares are being issued pursuant to the Placing at a price of 23 pence per Ordinary Share which represents a premium of 13 pence over their nominal value of 10p each. No expenses are being charged to any subscriber or purchaser.
- (k) Save in connection with the Placing, the Acquisition, to fulfil options granted under the Share Option Schemes and the 2007 Unapproved Scheme described in paragraph 4 below, there is no present intention to issue any share or loan capital in the company following Second Admission.
- (l) Save as set out in this document, no shares in the capital of the Company are under option or have been agreed, conditionally or unconditionally, to be put under option.
- (m) Following Second Admission and assuming the maximum number of Placing Shares are placed, 60,832,389 Ordinary Shares will remain authorised but unissued, representing approximately 51 per cent. of the Enlarged Share Capital. The Placing will result in the Existing Ordinary Shares being diluted by the issue of 62,299,445 new Ordinary Shares (assuming the maximum number of Placing Shares are placed), which will result in the immediate dilution of 52 per cent. of the Existing Ordinary Shares.

### 3. Memorandum and articles of association

- (a) The memorandum of association of the Company provides that the Company's principal object is to carry on business as a general commercial company. The objects of the Company are set out in full in clause 4 of its memorandum of association.
- (b) The Articles contain provisions, *inter alia*, to the following effect:
- (i) **Voting rights**
- Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held and any restriction on voting referred to below, at a general meeting of the Company every member who is present in person (including any corporation present by its duly authorised representative) shall on a show of hands have one vote and every member present in

person or by proxy shall on a poll have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares, either in person or by proxy, or to exercise any other right or privilege as a member in respect of any share held by him (a) unless all calls presently payable by him in respect of that share, whether alone or jointly with any other person, together with interest and expenses (if any) have been paid to the Company; (b) or if he, or any other person appearing to be interested in such shares, has been issued with a notice pursuant to section 212 of the Act (now section 793 of the 2006 Act) (requiring disclosure of interests in shares) and has failed in relation to any such shares to give the Company the information required by such notice within 14 days.

(ii) ***Dividends***

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

Subject to the provision of the Act, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways.

The Board may also, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to holders of ordinary shares the right to elect to receive ordinary shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

Unless the Board otherwise determines, the payment of any dividend or other money that would otherwise be payable in respect of ordinary shares will be withheld if such shares represent at least 0.25 per cent. of their class and the holder, or any other person appearing to be interested in those shares, has been duly served with a notice under section 212 of the Act (now section 793 of the 2006 Act) and has failed to supply the information required by such notice within 14 days. Furthermore such a holder shall not be entitled to elect to receive ordinary shares instead of a dividend.

(iii) ***Distribution of assets on a winding-up***

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members *in specie* the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the dividend shall be carried out as between the members or vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.



(iv) ***Transfer of shares***

Every member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument must be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder until the transferee's name is entered in the register of members.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share or renunciation of a renounceable letter of allotment unless:

- (A) it is in respect of a share which is fully paid up;
- (B) it is in respect of only one class of shares;
- (C) it is in favour of a single transferee or not more than four joint transferees;
- (D) it is duly stamped (if so required); and
- (E) it is delivered for registration to the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles of Association) where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so;

provided that the Board shall not refuse to register any transfer of partly paid shares which are listed on the grounds they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

Unless the Board otherwise determines, a transfer of shares will not be registered if the transferor or any other person appearing to be interested in the transferor's shares has been duly served with a notice under section 212 of the Act (now section 793 of the 2006 Act), has failed to supply the information required by such notice within 14 days and the shares in respect of which such notice has been served represent at least 0.25 per cent. of their class, unless the member is not himself in default as regards supplying the information required and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or unless such transfer is by way of acceptance of a take-over offer, in consequence of a sale on a recognised stock exchange or a sale to an unconnected party.

(v) ***Variation of rights***

If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class. The quorum at any such meeting shall be not less than two persons holding or representing by proxy at least one third of the nominal amount paid up on the issued shares of the class in question and at an adjourned meeting not less than one person holding shares of the class in question or his proxy.

Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction

of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Act and the Articles.

(vi) ***Borrowing powers***

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the provisions of the Act, to create and issue debenture and other loan stock and debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company, and shall exercise all voting and other rights and powers of control exercisable by the Company in relation to its subsidiary undertakings, so as to procure (as far as it can in relation to its subsidiary undertakings) that the aggregate principal amount outstanding in respect of moneys borrowed by the Group does not at any time, without the previous sanction of an ordinary resolution of the Company, exceed a sum equal to five times the adjusted total of capital and reserves.

(vii) ***Changes in capital***

Subject to the provisions of the Act, the Company in general meeting may from time to time by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled and sub-divide all or any of its shares into shares of smaller amount. The Company may also, subject to the provisions of the Act and to any rights for the time being attached to any shares, purchase its own shares and, by special resolution, reduce its share capital or any capital redemption reserve or any share premium account in any way.

(viii) ***Issue of shares***

Subject to the provisions of the Act and to any special rights for the time being attached to any shares, any shares may be allotted or issued with or have attached to them such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine, and any share may be issued which is, or is liable to be, redeemed at the option of the Company or the holder in accordance with the Articles. Subject to the Act and to any relevant authority of the Company in general meeting required by the provisions of the Act, the unissued shares at the date of adoption of the Articles of Association and any shares created thereafter shall be at the disposal of the Board.

(ix) ***Remuneration of directors***

The Directors (other than alternate directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine (not exceeding in aggregate £500,000 per annum or such larger sum as the Company in general meeting shall from time to time determine). Such sum (unless otherwise directed by the resolution of the company by which it is voted) shall be divided among the Directors in such proportions and in such manner as the Board may determine.

The Directors are entitled to be repaid all travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors.

The salary or remuneration of any Director appointed to hold any employment or executive office may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the Board, and may be in addition to or in lieu of any fee payable to him for his services as Director.

(x) ***Pensions and gratuities for Directors***

The Board may exercise all the powers of the Company to provide and maintain pensions, other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities for persons who are or were Directors of any company in the Group and their relatives or dependants.

(xi) ***Directors' interests in contracts***

Subject to the provisions of the Act and provided that his interest is disclosed at a meeting of the Board in accordance with the Articles, a Director, notwithstanding his office, may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested, may hold any other office or place of profit under the Company (except that of auditor of the Company or of a subsidiary of the Company) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity for the Company, and in any such case on such terms as to remuneration and otherwise as the Board may arrange, and may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any Company promoted by the Company or in which the Company is otherwise interested and shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal. No such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.

(xii) ***Restrictions on Directors' voting***

Save as provided in the Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party and in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act (now section 252 of the 2006 Act)) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company, unless the resolution concerns any of the following matters:

- (A) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (B) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (C) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (D) any proposal concerning any other body corporate in which he (together with persons connected with him) does not to his knowledge have an interest (as the term is used in Part VI of the Act (now Part 22 of the 2006 Act)) in one per cent. or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of such body corporate;
- (E) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (F) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

(xiii) ***Age of directors***

The Articles do not require a Director to vacate his office on or by reason of his attaining or having attained the age of 70 and accordingly no special notice is required of any resolution appointing or approving the appointment of such a Director.

(xiv) ***Number of Directors***

Unless and until otherwise determined by an ordinary resolution of the Company, the number of Directors shall be not less than two nor more than ten.

(xv) ***Directors' appointment and retirement by rotation***

Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation. A Director shall not be required to hold any shares in the Company.

At each annual general meeting of the Company one-third of the Directors who are subject to retirement by rotation will retire by rotation and be eligible for re-election. Subject to the Act and to the Articles, the Directors to retire will, first, be any Director who wishes to retire and not offer himself for re-election and secondly, will be those who have been longest in office since their last appointment or re-appointment, but as between those who have been in office an equal length of time, those to retire shall (unless they otherwise agree) be determined by lot.

(xvi) ***Untraced shareholders***

Subject to the Articles, the Company may sell any shares in the Company registered in the name of a member remaining untraced for 12 years who fails to communicate with the Company following advertisement of an intention to make such a disposal. Until the Company can account to the member, the net proceeds of sale will be available for use in the business of the Company or for investment, in either case at the discretion of the Board. The proceeds will not carry interest.

(xvii) ***General meetings***

Subject to the Act, annual general meetings shall be held at such time and place as the Board may determine. The Board may convene a general meeting whenever it thinks fit. A meeting shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by section 368 of the Act (now section 303 of the 2006 Act). At any meeting convened on such requisition or by such requisitionists no business shall be transacted except that stated by the requisition or proposed by the Board.

An annual general meeting or a general meeting convened for the passing of a special resolution or an extraordinary resolution shall be convened by not less than twenty one clear days' notice in writing. All other general meetings shall be convened by not less than fourteen clear days' notice in writing. The notice shall specify:

- (A) whether the meeting is an annual general meeting or general meeting;
- (B) the date, time and place of the meeting;
- (C) in case of special business, the general nature of that business;
- (D) if the meeting is convened to consider a special or extraordinary resolution, the intention to propose the resolution as such; and

- (E) with reasonable prominence, that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not also be a member.

The Directors, the auditors and all members who are entitled to receive notice under the Articles must be given notice.

Before a general meeting starts, there must be a quorum, being two members present in person or by proxy.

Each Director can attend and speak at any general meeting.

#### **Non-United Kingdom shareholders**

- (c) There are no limitations in the Articles on the rights of non-United Kingdom Shareholders to hold, or to exercise voting rights attached to, the ordinary shares. However, non-United Kingdom Shareholders are not entitled to receive notices of general meetings unless they have given an address in the United Kingdom to which such notices may be sent.

#### **CREST**

- (d) CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by a written instrument. The Articles of Association are consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form.

#### **4. Share Option Schemes and the 2007 Unapproved Scheme**

The Company currently operates three share option schemes, the principal terms of which are described at paragraphs 4.1, 4.2 and 4.3 below, together with details of subsisting rights under the arrangements. At the General Meeting, the Company will be seeking Shareholder approval for the adoption of the 2007 Unapproved Scheme, further details of which are set out in paragraph 4.4 below.

##### **4.1 *The Transense Technologies plc 2005 Unapproved Discretionary Share Option Scheme (the "2005 Unapproved Scheme")***

The principal features of the 2005 Unapproved Scheme, the terms of which are set out in detail in its rules, are as follows:

###### **(a) *Regulation***

The 2005 Unapproved Scheme is regulated by the Board or a duly constituted committee of the Board or any person other than the Company who, pursuant to an agreement with the Company, has agreed to grant, or (as the case may require) has granted (the "**Grantor**"), an option to acquire shares in the capital of the Company from him. 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.

###### **(b) *Eligible persons***

All directors (whether executive or non-executive), officers of the Company (including a company secretary acting in his personal capacity or otherwise) or employees of the Group, provided that such directors or employees are not at the date of grant of the options within two years of his normal retirement date, are eligible for selection by the Board to participate in the 2005 Unapproved Scheme.

###### **(c) *Grants of options***

The rules of the 2005 Unapproved Scheme 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 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 after 20 May 2010, being five years after the 2005 Unapproved Scheme was approved by the Company's shareholders in general meeting.

No payment is required for the grant of an option. Options granted under the 2005 Unapproved 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.

(d) *Option price*

The price per Ordinary Share payable on the exercise of an option will be determined by the Board or the Grantor 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.

(e) *Exercise of options*

An option will not normally be exercisable until three years from the date of 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 grant.

The Board may prior to its grant impose one or more performance conditions which will determine the extent to which, if at all, an option may be exercised. The performance condition attached to options granted to date under the 2005 Unapproved Scheme is that the option cannot be exercised by a Director unless the share price at the date of exercise is at least two times the exercise price. There are no performance conditions attached to options granted to employees (who are not Directors) under the 2005 Unapproved Scheme.

If a participant ceases to be a director or employee of the Group, the Board has discretion to permit the exercise of the options 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 shall lapse immediately upon the participant ceasing to be a director or employee. Early exercise is allowed in the event of an amalgamation, reconstruction, take-over or demerger of the Company. Alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or the parent company of the acquiring company or a company which is a member of a consortium owning either the acquiring company or a parent company of the acquiring company. Options may also be exercised early in the event of a voluntary winding-up.

(f) *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, together with the right to receive and retain all dividends or other distributions paid or made on the ordinary share capital of the Company of the same class of Ordinary Shares by reference to a record date occurring on or after the date of allotment or transfer. So long as Ordinary Shares are dealt in

on AIM 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.

(g) *Limit on individuals' participation*

Options over no more than 650,000 Ordinary Shares may be granted in total to any director or employee under the 2005 Unapproved Scheme. This limit is subject to adjustment as described in paragraph (j) below.

(h) *Limits on the issue of ordinary shares*

No more than 1,750,000 Ordinary Shares may be placed under option, of which no more than 400,000 may be placed under option in favour of non-executive directors. 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. This limit is subject to adjustment as described in paragraph (j) below.

(i) *Subsisting rights*

As at the date of this document, the subsisting rights under the 2005 Unapproved Scheme are as follows:

<i>Date of Grant</i>	<i>No. of Ordinary Shares subject to option</i>	<i>Exercise price</i>
24 May 2005	1,650,000	£1.00
1 April 2007	50,000	£1.1775
TOTAL	<u>1,700,000</u>	

(j) *Adjustments*

The number and/or class of Ordinary Shares subject to any option and the option price and the limits described in paragraphs (g) and (h) above are subject to 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 ordinary 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.

(k) *Amendments*

The Board may make minor amendments to benefit the administration of the 2005 Unapproved Scheme, to take account of any changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for future or prospective participants of the 2005 Unapproved Scheme 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 Unapproved Scheme:

- (i) the definition of those eligible to participate;
- (ii) the time or times at which and the circumstances in which options may be granted or exercised;
- (iii) the basis of calculation of the option price;

- (iv) the basis of adjustments to the option price and the number of Ordinary Shares subject to options;
- (v) the basis of calculation of the total numbers of ordinary shares available for the 2005 Unapproved Scheme;
- (vi) the basis of calculation of the limits on an individual's participation; and
- (vii) the rules relating to amendment of the 2005 Unapproved Scheme.

#### 4.2 *The Transense Technologies plc 2004 Enterprise Management Incentive Share Option Plan (the "2004 EMI Plan")*

The options granted under the 2004 EMI Plan are intended to qualify as enterprise management incentives within the meaning of Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003. The principal features of the 2004 EMI Plan, the terms of which are set out in detail in the EMI Agreements (see (a) below) are as follows:

##### (a) *Constitution and Regulation*

The EMI Plan comprises of a series of individual agreements (drafted in similar terms) between the Company and participants (the "**EMI Agreements**"). Options have been granted to eligible individuals selected by the Board acting in their discretion.

##### (b) *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.

Only employees and executive directors who satisfy the following criteria are eligible to receive an option under the 2004 EMI Plan. In summary, the employee has to spend at least 25 hours per week working for the Group or, if they work part-time, at least 75 per cent. of their working time has to be spent on Group matters. The employee must also not have a material interest in the Company. Broadly, this means that they must not hold more than 30 per cent. of the Ordinary Shares.

No payment is required for the grant of an option. Options granted under the 2004 EMI 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.

##### (c) *Exercise Price*

The price at which an option holder may acquire Ordinary Shares on the exercise of an option is determined by the Board prior to the grant of the option at their discretion.

##### (d) *Exercise of Options*

An option is not normally 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, after which time the option lapses in accordance with the 2004 EMI Plan. The Board may, prior to the grant of an option under the 2004 EMI Plan, impose one or more performance conditions that will determine the extent to which, if at all, the option may be exercised. The performance condition attached to options granted to Directors under the 2004 EMI Plan initially is that the option cannot be exercised unless the share price at the date of exercise is at least two times the exercise price. There are no performance conditions attached to options granted to employees (who are not Directors) under the 2004 EMI Plan.



(e) *Limits on Individual Participation*

There is a limit on the number of EMI options that any individual can hold at any one time of £100,000 calculated by reference to the market value of the Ordinary Shares subject to the options at the time of grant. Further, once the £100,000 limit has been reached, an employee cannot be granted any further EMI options within the period of three years following the date on which the last EMI option was granted.

(f) *Overall Scheme Limits*

There is a limit on the maximum market value at the time of grant of Ordinary Shares that can be subject to EMI options granted by the Company at any time of £3,000,000.

(g) *Subsisting Rights*

As at the date of this document the subsisting rights under the 2004 EMI Plan are as follows:

<i>Date of Grant</i>	<i>No. of Ordinary Shares subject to option</i>	<i>Exercise price</i>
1 April 2004	206,250	£0.48
25 May 2004	357,600	£0.50
16 June 2004	100,000	£0.50
19 May 2005	25,000	£0.895
24 May 2005	360,000	£1.00
8 August 2005	15,000	£0.905
16 October 2006	15,000	£0.64
TOTAL	<u>1,078,850</u>	

(h) *Manner of Exercise*

Within 28 days of receipt of a notice of exercise (and subject to the satisfaction of applicable tax liabilities), the Ordinary Shares relating to the option must be issued by the Company or the Company must procure their transfer to the option holder. The Company must also issue a definitive share certificate in respect of the Ordinary Shares allotted or transferred.

(i) *Issue or Transfer of Ordinary 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 Ordinary Shares to be admitted to trading on the AIM.

(j) *Change of Control*

If any company obtains all the Ordinary Shares of the Company as a result of a “qualifying exchange of shares” an option holder may be invited to release his option in consideration for the grant to him of a new equivalent option over Ordinary Shares in the acquiring company. If the option holder does not agree to release his option in consideration of the grant to him of a new option his option shall lapse.

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.

(k) *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 Board 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.

(l) *Adjustments*

In the event of a capitalisation or rights issue, sub-division, consolidation, reduction, demerger or other variation of the Company's capital, the number of Ordinary Shares subject to any option and/or the exercise price of such options may be adjusted by the Board (subject to HMRC consent) in such manner as is necessary to ensure that the value of the option is not significantly decreased or increased solely as a consequence of such variation provided that the exercise price remains at least equal to the nominal value, although the Board (on behalf of the Company) may at the time of allotment agree to capitalise the Company's reserves to pay up the difference between the exercise price and the nominal value of Ordinary Shares.

(m) *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.

4.3 ***The Transense Technologies plc 2005 Enterprise Management Incentive Share Option Contract (the "2005 EMI Plan")***

The principal features of the 2005 EMI Plan are substantially the same as the 2004 EMI Plan, save that options have been granted to both eligible employees and Executive Directors.

4.4 ***The Transense Technologies plc 2007 Unapproved Discretionary Share Option Scheme (the "2007 Unapproved Scheme")***

The principal features of the 2007 Share Option Scheme are substantially the same as the 2005 Unapproved Scheme, save for the following:

(a) *Limits on the issue of Ordinary Shares*

No more than 4,000,000 Ordinary Shares may be subject to options granted under the 2007 Unapproved Scheme, of which no more than 400,000 may be subject to options granted in favour of non-executive directors. 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. This limit is subject to adjustment as described in paragraph 4.1(j) above.

(b) *Overseas employees*

The Board may adopt sub-plans to the 2007 Unapproved Scheme for the purposes of granting options to employees in a particular jurisdiction. The 2007 Unapproved Scheme rules may be varied in such manner as the Board believes is necessary or desirable in relation to such sub-plan in order to comply with or take account of relevant overseas legal, taxation or securities laws provided that such variation is in accordance with the provisions set out under the sub-heading "Amendments" in paragraph 4.1(k) above.

## 5. Information on the Directors and the Proposed Directors

- (a) The full names, age and functions of the Directors and Proposed Directors (all of whose business address is, and will, in the case of the Proposed Directors, be following Second Admission at 66 Heyford Park, Upper Heyford, Bicester, Oxfordshire OX25 5HD) are as follows:

<i>Name</i>	<i>Age</i>	<i>Function</i>
Antony Brian Baldry MP	57	Non-Executive Director
Graham Dudley Eves	61	Commercial Director
Dr Raymond David Lohr	59	Technical Director
Howard George Pearl	63	Finance Director
James Anthony Harold Perry	68	Chief Executive Officer
Rodney Westhead	63	Non-Executive Director
Peter Joseph Woods OBE	71	Non-Executive Chairman
Bruce Ferguson Grey	61	Proposed Chief Executive Officer
Tim Mark Renfrey	38	Proposed Finance Director

- (b) In addition to any directorship of a member of the Enlarged Group, the Directors and Proposed Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Antony Baldry MP	Black Rock Resources (UK) Limited Black Rock Oil & Gas plc Angelgate Limited Invicta African Limited Church Street Residents Association Limited Afghan Action Limited Quartet Global Limited Angelgate Estates Limited Symphony Global Limited Westminster Oil (BVI) Limited	International Matchmakers Ltd Rancid News Limited Akma International Limited Akma Finance Limited Globalinte Solutions Limited Midwest Health Limited Midwest Fisheries Limited Midwest Group Limited Midwest Aviation Limited Bloxham School Ltd Bluewings Aviation Limited Medpharma plc SPDC Technologies Plc Angelgate Weybridge Limited Multimedia Television plc Angelgate Aviation Limited Eden Research plc Eden Research Europe Limited 3DM Europe Limited Battlebridge Capital Limited Tiresins Limited Carbon Registry Services Limited Icon Biometrics Limited Battlebridge Telecommunications Limited Enterprise Development International Capital Limited

<i>Director</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Graham Eves		Wheelsure Limited 3PC Investment Trust Evesco
James Perry	Mastermailer Holdings plc	
Rodney Westhead	AEA Technology Plc Mouchel Parkman Plc Carter & Carter Group Plc Clean Air Power plc	SRM Systems Limited Mouchel Parkman Dormant Holdings Limited Ricardo plc Plazabmy Limited SAC International plc Ricardo UK Limited Ricardo Properties Limited Ricardo MTC Limited Ricardo Consulting Engineers Limited
Peter Woods OBE	Mastermailer Holdings plc Image Scan Holdings plc	Regent on the River Limited
Bruce Grey		Knight Innovation Management Pty. Ltd. German-Australian Chamber of Industry and Commerce Ltd.
Tim Renfrey		Hartley Valley Owner's Company Limited

- (c) Save as set out in paragraph 5(b) above, none of the Directors or Proposed Directors has any business interests or activities outside the Group which are significant with respect to the Group.
- (d) Save as disclosed in paragraph 5(e) below, none of the Directors or Proposed Directors:
- (i) has any unspent convictions in relation to indictable offences;
  - (ii) has been made bankrupt or has made an individual voluntary arrangement with creditors or suffered the appointment of a receiver over any of his assets;
  - (iii) has been a director of any company which, whilst he was such a director or within 12 months after his ceasing to be such a director, was put into receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with the company's creditors generally or with any class of creditors of any company or had an administrator or an administrative or other receiver appointed;
  - (iv) has been a partner in any partnership which, whilst he was a partner, or within 12 months after his ceasing to be a partner, was put into compulsory liquidation or had an administrator or an administrative or other receiver appointed or entered into any partnership voluntary arrangement;
  - (v) has had an administrative or other receiver appointed in respect of any asset belonging either to him or to a partnership of which he was a partner at the time of such appointment or within the 12 months preceding such appointment; or
  - (vi) has received any public criticisms, official public incriminations and/or sanctions by statutory or regulatory authorities (including recognised professional bodies) or has ever been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

- (e) Mr Perry was a director of Veritech Limited when it was dissolved in May 1999. This company had never traded.

Mr Eves was a director of Mechadyne Valvetrain Technologies Limited when it was dissolved in 1999. This company had never traded.

Mr Pearl was a director of Ultramar Products Limited which went into voluntary liquidation within 12 months of his ceasing to be a director of the company.

Mr Baldry was a director of Angelgate Aviation Limited which went into liquidation during the two years after he ceased to be a director of the company.

Mr Baldry was a director of Tileform Limited which went into voluntary receivership within 12 months of his ceasing to be a director of the company.

## 6. Directors', Proposed Directors' and other interests

- (a) Subsisting options to subscribe for Ordinary Shares granted to the Directors pursuant to the Share Option Schemes are as follows:

### *2005 Unapproved Scheme*

<i>Director</i>	<i>Date of Grant</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price*</i>	<i>Exercise Period</i>
Antony Baldry MP	24 May 2005	100,000	£1.00	2 years from 24 May 2008
Graham Eves	24 May 2005	400,000	£1.00	2 years from 24 May 2008
Dr Raymond Lohr	24 May 2005	200,000	£1.00	2 years from 24 May 2008
Howard Pearl	24 May 2005	100,000	£1.00	2 years from 24 May 2008
James Perry	24 May 2005	550,000	£1.00	2 years from 24 May 2008
Rodney Westhead	1 April 2007	50,000	£1.1775	2 years from 1 April 2010
Peter Woods OBE	24 May 2005	200,000	£1.00	2 years from 24 May 2008

\* The performance condition attached to options granted to date under the 2005 Unapproved Scheme is that the option cannot be exercised by a Director unless the share price on the date of exercise is at least two times the exercise price.

### *2005 EMI Plan*

<i>Director</i>	<i>Date of Grant</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price*</i>	<i>Exercise Period</i>
Graham Eves	24 May 2005	90,000	£1.00	2 years from 24 May 2008
Dr Raymond Lohr	24 May 2005	90,000	£1.00	2 years from 24 May 2008
Howard Pearl	24 May 2005	90,000	£1.00	2 years from 24 May 2008
James Perry	24 May 2005	90,000	£1.00	2 years from 24 May 2008

\* The performance condition attached to options granted to date under the 2005 EMI Plan is that the option cannot be exercised by a Director unless the share price on the date of exercise is at least two times the exercise price.

- (b) Immediately following Second Admission, the following Directors and Proposed Directors will, in addition to the options referred to at paragraph 6(a) above, hold the following options pursuant to the 2005 EMI Plan described at paragraph 4.3 and the 2007 Unapproved Scheme described at paragraph 4.4 of this Part VI:

<i>Director/Proposed Director</i>	<i>Share Option Scheme</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price*</i>	<i>Exercise Period</i>
Bruce Grey	2005 EMI Plan	That number of Ordinary Shares equal to £100,000 divided by the market value of an Ordinary Share at close of business on the date of Second Admission (rounded down to the nearest whole share)	The market value of an Ordinary Share at close of business on the date of Second Admission	2 years starting 3 years from Second Admission
	2007 Unapproved Scheme	650,000 Ordinary Shares	The market value of an Ordinary Share at close of business on the date of Second Admission	2 years starting 3 years from Second Admission
Tim Renfrey	2005 EMI Plan	That number of Ordinary Shares equal to £100,000 divided by the market value of an Ordinary Share at close of business on the date of Second Admission (rounded down to the nearest whole share)	The market value of an Ordinary Share at close of business on the date of Second Admission	2 years starting 3 years from Second Admission
	2007 Unapproved Scheme	400,000 Ordinary Shares	The market value of an Ordinary Share at close of business on the date of Second Admission	2 years starting 3 years from Second Admission
Dr Raymond Lohr	2007 Unapproved Scheme	200,000 Ordinary Shares	The market value of an Ordinary Share at close of business on the date of Second Admission	2 years starting 3 years from Second Admission

\* The performance condition attached to these options will be that the option cannot be exercised by a Director unless the share price on the date of exercise is at least two times the exercise price.

- (c) After close of business on the date of this document, the Company also proposes to grant options over that number of Ordinary Shares equal to £215,000 divided by the market value of an Ordinary Share at close of business on the date of this document (each grant being rounded up to the nearest 5,000 Ordinary Shares) to existing Transense employees under the 2005 EMI Plan. Immediately following Second Admission, the Company also proposes to grant options over an aggregate of 1,140,000 Ordinary Shares to Bishop employees under the 2007 Unapproved Scheme.
- (d) In addition to the options referred to in paragraphs 6(a) to 6(b) above, the interests (all of which are or will be beneficial unless otherwise stated) of each Director and Proposed Director (including any interest known to that Director or Proposed Director or which could with reasonable diligence be ascertained by him of any person connected with a Director within the meaning of section 252 of the 2006 Act (a “**Connected Person**”)) in the share capital of the Company at the date of this document and as they will be immediately following First Admission (assuming all of the Placing Shares are placed) and as they will be immediately following Second Admission (assuming all of the Placing Shares are placed) are as follows:

<i>Director/Proposed Director</i>	<i>Number of Ordinary Shares currently held</i>	<i>Percentage of issued share capital currently held</i>	<i>Number of Ordinary Shares to be held immediately following First Admission</i>	<i>Percentage of enlarged issued share capital to be held immediately following First Admission</i>	<i>Number of Ordinary Shares to be held immediately following Second Admission</i>	<i>Percentage of enlarged issued share capital to be held immediately following Second Admission</i>
Antony Baldry MP	91,200	0.16%	91,200	0.16%	91,200	0.08%
Graham Eves	256,400	0.45%	256,400	0.45%	256,400	0.22%
Dr Raymond Lohr	20,000	0.035%	20,000	0.035%	20,000	0.02%
Howard Pearl	222,400	0.39%	222,400	0.39%	222,400	0.19%
James Perry	1,955,892	3.44%	1,955,892	3.43%	1,955,892	1.64%
Rodney Westhead	5,000	0.0088%	5,000	0.0088%	5,000	0.004%
Peter Woods OBE	8,756	0.015%	8,756	0.015%	8,756	0.01%
Bruce Grey	0	0.00%	0	0.00%	1,376,425	2.97%
Tim Renfrey	0	0.00%	0	0.00%	0	0.00%

- (e) Save as disclosed in paragraphs 6(a) to 6(d) above, no Director, Proposed Director nor any Connected Person has at the date of this document, or will have immediately following First Admission, any interest, whether beneficial or non-beneficial, in the share or loan capital of the Company or any of its subsidiaries or any related financial product referenced to the Ordinary Shares.
- (f) In addition to the interests of Directors and Proposed Directors disclosed in paragraphs 6(a) to 6(d) above, the Company is aware of the following existing Shareholders who are at the date of this document, or will be immediately following First Admission (assuming all of the Placing Shares are placed), or will be immediately following Second Admission (assuming all of the Placing Shares are placed) interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>Number of Ordinary Shares currently held</i>	<i>Percentage of issued share capital currently held</i>	<i>Number of Ordinary Shares to be held immediately following First Admission</i>	<i>Percentage of enlarged issued share capital to be held immediately following First Admission</i>	<i>Number of Ordinary Shares to be held immediately following Second Admission</i>	<i>Percentage of enlarged issued share capital to be held immediately following Second Admission</i>
Bluehone Investors LLP*	5,147,880	9.1%	5,147,880	9.0%	7,321,790	6.1%
MF Global UK Limited	3,181,500	5.6%	3,181,500	5.6%	3,181,500	2.7%
Peter Lobbenberg	2,625,936	4.6%	2,625,936	4.6%	2,625,936	2.2%
AXA Framlington Group plc	1,050,000	1.8%	1,050,000	1.8%	7,571,740	6.4%
Glory B Pty Ltd	0	0%	0	0%	14,922,360	12.5%
Daimler A.G.	0	0%	0	0%	11,405,117	9.6%
John Baxter	0	0%	0	0%	3,543,098	3.0%
Klaus Roeske	0	0%	0	0%	3,013,788	2.5%
Laurie Bishop	0	0%	0	0%	3,274,765	2.7%

\*Active Capital Trust Plc has a beneficial interest in 3,741,968 shares

- (g) The Shareholders listed in (f) above do not have different voting rights.
- (h) The Company is not aware of any person or entity who, directly or indirectly, jointly or severally, will or could exercise control over the Company immediately following First Admission or Second Admission and there are no arrangements the operation of which could result in a change of control of the Company.
- (i) No Director or Proposed Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and was effected during the current or immediately preceding financial year or was effected during any earlier financial year which remains outstanding and unperformed in any respect.
- (j) There are no loans or guarantees granted or provided by the Company and/or any of its subsidiaries to or for the benefit of any of the Directors or Proposed Directors which are now outstanding.

## 7. Service agreements and remuneration of the Directors and Proposed Directors

- (a) The Directors and Proposed Directors have entered into the following service agreements with the Company in respect of their role as executive directors, details of which are set out below:

<i>Director/Proposed Director</i>	<i>Date of contract</i>	<i>Salary per annum</i>
Graham Eves	29 November 1999	£55,200
Dr Raymond Lohr	1 May 2002	£66,040
Howard Pearl	29 November 1999	£30,000
James Perry	29 November 1999	£73,320
Bruce Grey	*	£177,000
Tim Renfrey	*	£85,000

\* These contracts are to be entered into prior to or on Completion, conditional on Second Admission. Once these contracts become effective, the service contracts described in paragraph 7(c) below will terminate.

James Perry has a service agreement with the Company which is terminable by either party on six months' notice. Graham Eves and Howard Pearl have service agreements with the Company which are for one year fixed terms and thereafter terminable on six months' notice. Dr Raymond Lohr has a service agreement with the Company which is terminable by the Company on six months' notice or by Dr Lohr on three months' notice. Bruce Grey and Tim Renfrey each have a service agreement with the Company which is terminable by either party on six months' notice.

There are no payments in lieu of notice clauses in the service agreements for Graham Eves, Howard Pearl and James Perry. There is a payment in lieu of notice clause in the service agreements for Dr Raymond Lohr, Bruce Grey and Tim Renfrey. Each service agreement contains provisions for immediate termination by the Company in certain circumstances including a serious breach of the agreement, fraud, dishonesty, bringing the Company into disrepute or being disqualified from holding office as a director. In the event of such early termination, there are no provisions for payment by the Company of compensation to the Director or Proposed Director.

Each service agreement provides that the Directors and Proposed Directors shall devote such contracted time, attention and skill to the business and affairs of the Company as is necessary for the proper performance of their duties or as the Board may require.

There are no restrictive covenants in the service agreements for Graham Eves, Howard Pearl and James Perry. There are restrictive covenants in the service agreements for Dr Raymond Lohr, Bruce Grey and Tim Renfrey.

The service agreements also make provisions for additional benefits as follows:

James Perry – bonus at the discretion of the Board, company car or car allowance, company sick pay for 90 days, pension contributions by the Company of 10 per cent. of salary per annum, permanent health insurance, medical expenses insurance for him, his spouse and children and life assurance of three times salary.

Graham Eves – bonus at the discretion of the Board, company car or car allowance, company sick pay for 90 days, pension contributions by the Company of 10 per cent. of salary per annum, permanent health insurance, medical expenses insurance for him, his spouse and children and life assurance of three times salary.

Dr Raymond Lohr – car allowance, company sick pay for 90 days, pension contributions by the Company of 10 per cent. of salary per annum, permanent health insurance, medical expenses insurance for him, his spouse and children and life assurance of three times salary.

Howard Pearl – bonus at the discretion of the Board and 90 days' sick pay.

Bruce Grey – initial relocation expenses, car allowance, company sick pay for 90 days, pension contributions by the Company of 10 per cent. of salary per annum, permanent health insurance, medical expenses insurance for him, his spouse and children and life assurance of three times salary.



Tim Renfrey – initial relocation expenses, car allowance, company sick pay for 90 days, pension contributions by the Company of 10 per cent. of salary per annum, permanent health insurance, medical expenses insurance for him, his spouse and children and life assurance of three times salary.

The Executive Directors and the Proposed Directors are also entitled to participate in the Share Option Schemes. See details of share options granted under the Share Option Schemes at paragraphs 4 and 6(a) above. The service agreements of the Executive Directors also provide that the Director retains the right to claim compensation for any lost opportunity to exercise their share options under the Share Option Schemes if their employment is terminated by the Company unlawfully. It is also proposed that the Proposed Directors and Raymond Lohr be granted options under the 2007 Unapproved Scheme, as described in paragraph 6(b) of this Part VI, above.

- (b) The following Directors have entered into written arrangements with the Company in respect of their services as non-executive directors, details of which are set out below:

<i>Director</i>	<i>Date of Contract</i>	<i>Fee per annum (£)</i>
Peter Woods OBE	29 November 2000	20,000
Rodney Westhead	1 April 2007	12,000
Antony Baldry MP	29 November 1999	12,000

The Non-Executive Directors are also entitled to participate in the Share Option Schemes. See details of share options granted under the Share Option Schemes at paragraphs 4 and 6(a) above.

- (c) The Proposed Directors currently have service agreements with Bishop which will terminate on Second Admission, at which time their agreements with Transense (as described in (a) above) will become effective. There are no service agreements between any Director or Proposed Director and any subsidiary of the Company and no such contracts are proposed.
- (d) Save as set out in paragraphs 7(a) to (b) above, on Second Admission there will be no existing or proposed service agreements between the Directors or the Proposed Directors and any member of the Enlarged Group. Furthermore, save as set out at paragraphs 7(a) and (b) above and the share incentive arrangements described in paragraphs 4 and 6(a) and (b) above, there are no commissions or profit-sharing arrangements with any of the Directors or Proposed Directors.
- (e) In the financial year ended 31 December 2006, the aggregate remuneration paid and benefits in kind granted to the Directors at that time by all members of the Group was approximately £299,820. The aggregate remuneration payable by any member of the Enlarged Group (including bonuses and benefits in kind) to the Directors and Proposed Directors in respect of the current financial year ending 31 December 2007 under the arrangements in force or proposed at the date of this document is expected to amount to approximately £365,000.
- (f) There is no arrangement under which any Director or Proposed Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

## **8. Employees**

- (a) Howard Pearl, the Finance Director, is part time. All other employees of the Group are full time staff based in Upper Heyford, Bicester, Oxfordshire. The average number of employees, broken down by main category of activity during each financial year for the last three financial years is set out below:

<i>Activity</i>	<i>Average number of employees during each financial year</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
Management and technical	17	16	15
Administration	4	4	4
Non-Executive Directors	3	3	3
Total	<u>24</u>	<u>23</u>	<u>22</u>

- (b) All employees of Bishop are full time staff based in NSW in Australia, Indiana in the USA and Magdeburg in Germany. The average number of employees, broken down by main category of activity during each financial year for the last three financial years is set out below:

<i>Activity</i>	<i>Average number of employees during each financial year</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
Management and technical	117	102	103
Administration	16	13	12
Non-Executive Directors	7	3	3
Total	<u>140</u>	<u>118</u>	<u>118</u>

- (c) Bishop also has a 50 per cent. interest in BMB Steering Innovation GmbH and a 50 per cent. interest in Bishop Hando Steering Components Limited. The average number of employees for these joint venture entities, broken down by main category of activity during each financial year for the last three financial years is set out below:

<i>Activity</i>	<i>Average number of employees during each financial year</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
Management and technical	104	106	112
Administration	20	19	23
Total	<u>124</u>	<u>125</u>	<u>135</u>

## 9. Subsidiaries

- (a) The Company does not have any material subsidiaries, subsidiary undertakings and other undertakings in which it has an interest held on a long-term basis.
- (b) Bishop comprises the following material subsidiaries, subsidiary undertakings and other undertakings:

<i>Name</i>	<i>Nature of business</i>	<i>Registered office and country of incorporation/ residence</i>	<i>Proportion of share capital held</i>	<i>Issued and fully paid share capital</i>
Bishop Manufacturing Technology Limited	Precision Toolmakers & Innovative Engineers	10 Waterloo Road, Macquarie Park NSW 2113, Australia	100%	2 ordinary shares
Bishop Steering Technology Limited	Markets, supplies and supports steering technology	10 Waterloo Road, Macquarie Park NSW 2113, Australia	100%	2 ordinary shares and 7,746 redeemable preference shares

<i>Name</i>	<i>Nature of business</i>	<i>Registered office and country of incorporation/ residence</i>	<i>Proportion of share capital held</i>	<i>Issued and fully paid share capital</i>
Bishop Steering Technology, Inc	Production, development, application engineering and project management of car parts	28400 Northwestern Highway, Third Floor, Southfield, Michigan 48034 USA	100%	50,000 common voting shares of US\$1.00 and 3,200 preferred shares of US\$1,000
Bishop Steering Technology GmbH	Production, development and distribution of car parts	Porsestrasse 19 Magdeburg 39104, Germany	100%	DM150,000
BMB Steering Innovation GmbH	Production, development, application engineering and project management of car parts	Barbarastrasse 30 Schonebeck 39218 Germany	50%	DM1,000,000
BMB Steering Innovation, Inc.	Production, development, application engineering and project management of car parts	793 Fort Mill Highway Fort Mill Lancaster County South Carolina 29715, USA	50%	USDS\$12,823,043
Bishop Innovation Management Pty Limited	Development and commercialisation of products and processes in new and/or emerging technologies	10 Waterloo Road, Macquarie Park NSW 2113, Australia	100%	2 ordinary shares
Bishop Innovation Limited	Development and commercialisation of products and processes in new and/or emerging technologies	10 Waterloo Road, Macquarie Park NSW 2113, Australia	100%	150,000 ordinary shares
Bishop Hando Steering Components Limited	Production, development, application engineering and project management of car parts	Panjung-Ri 70-2 Jiksan-eup Cheonan-si Chungchungnamdo Republic of Korea	50%	565,000 shares of Common Stock, Registered Capital: KRW 2,825,000,000

## 10. Principal establishments

- (a) The Company's registered office is at 36 Elder Street, London, United Kingdom.
- (b) The principal places of business of the Enlarged Group will be:
- (i) 66 Heyford Park, Upper Heyford, Bicester, Oxfordshire OX25 5HD, UK;
  - (ii) 10 Waterloo Road, North Ryde, NSW 2113, Australia;
  - (iii) Unit 2, 40 Biloela Street, Villawood, NSW 2163, Australia;
  - (iv) 8802 Bash Street, Indianapolis, Indiana, 46250-6910, USA; and
  - (v) Porsestrasse 19, Magdeburg 39104, Germany.
- (c) The principal establishments of the Enlarged Group will be as follows:

<i>Company</i>	<i>Location</i>	<i>Approx. area (sq ft)</i>	<i>Tenure</i>	<i>Lease expiry date</i>
The Company	66 Heyford Park Upper Heyford Bicester Oxfordshire OX25 5HD, UK	3,700	4 years	16 July 2009
Bishop Technology Group Limited	10 Waterloo Road North Ryde NSW 2113 Australia	22,141	–	Building Owned
Bishop Steering Technology Limited	10 Waterloo Road North Ryde NSW 2113 Australia	22,141	–	Building Owned
Bishop Innovation Limited	10 Waterloo Road North Ryde NSW 2113 Australia	22,141	–	Building Owned
Bishop Innovation Management Pty Limited	10 Waterloo Road North Ryde NSW 2113 Australia	22,141	–	Building Owned
Bishop Manufacturing Technology Limited	Unit 2/40 Biloela Street, Villawood NSW 2163 Australia	44,746	11 years	2009
Bishop Steering Technology Inc	8802 Bash St Indianapolis, Indiana 46250-6910 USA	28,000	10 years	2009
Bishop Steering Technology GmbH	Porsestrasse 19 Magdeburg 39104 Germany	230	11 years	2009

- (d) Bishop also has a 50 per cent. interest in BMB Steering Innovation GmbH and a 50 per cent. interest in Bishop Hando Steering Components Limited. The principal establishments of these two joint venture companies are:

<i>Company</i>	<i>Location</i>	<i>Approx. area (sq ft)</i>	<i>Tenure</i>	<i>Lease expiry date</i>
BMB Steering Innovation GmbH	Barbarastrasse 30 Schonebeck 39218 Germany	118,252	1998	Earliest date 31 December 2012
BMB Steering Innovation Inc.	793 Fort Mill Highway Fort Mill Lancaster County South Carolina 29715, USA	255,000	–	Building Owned
Bishop Hando Steering Components Limited	Panjung-Ri 70-2 Jiksan-eup Cheonan-si Chungcheongnamdo Republic of Korea	4,198	1 year	June 2007

## 11. Pensions

In relation to employees in the UK, the Group operates a defined contribution pension scheme, whereby the company matches all members' contributions up to 5 per cent. of basic salary for all employees and 10 per cent. for all Executive Directors (which will extend to the Proposed Directors following the Acquisition).

In relation to employees in Australia, the Enlarged Group will continue Bishop's current contributions to a contributory superannuation scheme and the level of contributions made will be based on the superannuation guarantee contribution of 9 per cent.

## 12. Arrangements relating to the Placing

On 22 October 2007, the Company and Noble entered into the Placing Agreement pursuant to which Noble has agreed, conditionally upon, *inter alia*, First Admission taking place not later than 4 December 2007, to use its reasonable endeavours to procure subscribers for the new Placing Shares at the Placing Price. The Placing is not being underwritten but has been pre-placed with institutional and other investors.

Under the Placing Agreement, Noble will receive (exclusive of VAT) (i) conditional upon First Admission, a success fee of £275,000 plus (ii) a commission of five per cent. of the aggregate value at the Placing Price of the Placing Shares (to be paid by the Company). The Company has agreed to pay all other costs, charges and expenses of, or incidental to, the Placing and the application for Admission and related arrangements.

The obligations of Noble under the Placing Agreement are conditional upon, amongst other things (i) the Company having complied with its obligations under the Placing Agreement; (ii) the Acquisition Agreement not having been rescinded or terminated prior to First Admission; and (iii) First Admission having occurred by not later than 8.00 a.m. on 19 November 2007. Noble, in its absolute discretion may agree to waive or extend the time and/or date for fulfilment of all or any or any part of any of the conditions, save that the time and/or date shall not be extended past 5.00 p.m. on 4 December 2007.

The Placing Agreement contains warranties given by the Company to Noble as to the accuracy of the information contained in this document and other matters relating to the Group and its business. The Company has also agreed to indemnify Noble, its subsidiaries and any holding company of Noble and their respective shareholders, directors, officers and employees against certain liabilities that they may incur under the Placing Agreement.

Noble has the right to terminate the Placing Agreement in certain circumstances that are typical in respect of an agreement of this nature, exercisable prior to the expected date of First Admission. These circumstances include, amongst others, (a) a substantial change in political, military, diplomatic, terrorist, monetary, industrial, economic, financial or stock market conditions which, in the opinion of Noble acting in good faith, would be likely to prejudice materially the success of the Placing or which would make it impracticable or inadvisable to proceed with the Placing or with Admission; (b) a material adverse change,

or a development involving a prospective material adverse change, in or affecting the business, management, financial or trading position or prospects, shareholders' funds or results of the Company or any other member of the Enlarged Group which would be likely to prejudice materially the success of the Placing or which would make it impracticable or inadvisable to proceed with the Placing or with Admission; (c) the Company failing to comply in any respect with any of its obligations under the Placing Agreement or with the requirements of any law or regulation in relation to the Placing or Admission; or (d) Noble becoming aware that any of the warranties was untrue, inaccurate or misleading in any material respect when given or when deemed repeated by reference to the matters, facts and circumstances subsisting from time to time; or (e) any of the conditions to the Placing Agreement becoming incapable of fulfilment before 4 December 2007 (as such date may be extended by Noble) and not being waived by Noble.

On 22 October 2007, Noble, the Company, the Directors and Bruce Grey (the Directors and Bruce Grey being the "Locked-in Shareholders") entered into a separate Lock-in Agreement, under which the Locked-in Shareholders (holding 3,936,073 Ordinary Shares in aggregate, representing 3.3 per cent. of the Enlarged Share Capital) have agreed (subject to certain limited exceptions) not to dispose of any Ordinary Shares in which they are interested following First Admission, without the prior consent of Noble, for a period of 12 months from the date of Admission (the "Restricted Period"). Further orderly marketing arrangements apply for a period of 12 months after the expiry of the Restricted Period, pursuant to which the Locked-In Shareholders are obliged (subject to certain limited exceptions), *inter alia*, to sell such Ordinary Shares only through Noble (while Noble remains the Company's broker) or in circumstances where Noble ceases to be the broker of the Company, through the Company's replacement broker, subject to being offered terms as to price and rates of commission at least as favourable as those being offered by other brokers at that time.

Under the Acquisition Agreement, certain of the Vendors have agreed to entered into an orderly market agreement (the "Orderly Market Agreement") with the Company and Noble pursuant to which, during the period commencing on Second Admission and ending on the earlier of (i) one month after the publication of the Company's annual audited results for the year ended 31 December 2007 and (ii) 30 April 2008, they are obliged not to sell any Ordinary Shares in which they are interested following Second Admission other than through Noble; and following such period they are subject to further restrictions during the period ending on the date falling 12 months after the date of Second Admission such that, if they identify a potential purchaser (an "Offeror") of any such Ordinary Shares during such period, they must first give Noble the opportunity to identify an alternative purchaser who is willing to acquire such Ordinary Shares for a price equal to or higher than the price offered by the potential purchaser identified by the Vendor, failing which, provided the Offeror is not, in the reasonable opinion of the directors of the Company, a competitor of the Company, they will be permitted to sell their shares to Offeror.

### **13. United Kingdom taxation**

The following statements are intended only as a general guide to current UK tax legislation and to the current practice of HMRC and may not apply to certain shareholders in the Company, such as dealers in securities, insurance companies and collective investment schemes. They relate (except where stated otherwise) to persons who are resident and ordinarily resident in the United Kingdom for UK tax purposes, who are beneficial owners of Ordinary Shares and who hold their Ordinary Shares as an investment. Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than that of the United Kingdom, should consult his or her professional advisers immediately.

#### **(a) Dividends**

Under UK tax legislation, the Company is not required to withhold tax at source from dividend payments it makes.

Individual Shareholders resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the dividend.

An individual Shareholder's liability to income tax will be calculated on the sum of the dividend and the tax credit (the "**gross dividend**"). This will be regarded as the top slice of the individual's income and will be subject to UK income tax at the rates described below.

The tax credit equals 10 per cent. of the gross dividend and will be available to set against a shareholder's liability (if any) to income tax on that gross dividend.

Individual Shareholders liable to income tax at no more than the basic rate will be liable to income tax on dividend income received at the rate of 10 per cent. of the gross dividend. This means that the tax credit will satisfy in full the individual Shareholder's liability to pay income tax on the dividend received.

The rate of income tax applying to dividends received by a UK resident individual Shareholder liable to income tax at the higher rate will be 32.5 per cent. of the gross dividend. After taking into account the 10 per cent. tax credit, a higher rate taxpayer will be liable to income tax of 22.5 per cent. of the gross dividend, which is equal to 25 per cent. of the cash dividend received.

For example, an individual Shareholder receiving a dividend of £90 would receive a tax credit of £10. The gross dividend (the cash dividend plus the tax credit) would be £100. If the shareholder is a higher rate taxpayer, he would be taxed on the dividend at £32.50 (32.5 per cent. of £100), but can set against this the tax credit of £10. This leaves tax to pay of £22.50, which is 25 per cent. of the £90 dividend received.

Individual Shareholders who are resident in the United Kingdom cannot claim payment of the tax credit from HMRC, even if the tax credit exceeds the liability of the shareholders to pay income tax on the dividend in question.

Trustees who are liable to income tax at the rate applicable to trusts (40 per cent. from 6 April 2004) will pay tax on the gross dividend at the Schedule F trust rate (32.5 per cent. from 6 April 2004) against which they can set the tax credit. To the extent that the tax credit exceeds the trustees' liability to account for income tax, the trustees will have no right to claim repayment of the tax credit.

A corporate shareholder which is resident for tax purposes in the United Kingdom and which is not a dealer in securities will not normally be liable to corporation tax on any dividends received, but cannot claim payment of the tax credit from HMRC.

UK pension funds and charities are generally exempt from tax on dividends which they receive but they are not entitled to claim repayment of the tax credit.

Individual Shareholders who are resident for tax purposes in countries other than the United Kingdom but who are Commonwealth citizens, nationals of states which are part of the European Economic Area, residents of the Isle of Man or the Channel Islands, or certain other persons are entitled to a tax credit as if they were resident for tax purposes in the United Kingdom which they may set off against their total UK income tax liability. Such shareholders will generally not be able to claim payment of the tax credit from HMRC.

Other shareholders who are not resident in the United Kingdom for tax purposes will not generally be entitled to claim payment of any part of the tax credit from HMRC under any double taxation treaty or otherwise, or if they are entitled, any such payment is likely to be negligible.

(b) ***Chargeable gains***

Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who dispose of their Ordinary Shares at a gain will ordinarily be liable to UK taxation on chargeable gains, subject to any available exemptions or reliefs. The gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Ordinary Shares.

Shareholders who are not resident or ordinarily resident in the United Kingdom for tax purposes but who carry on a trade, profession or vocation in the United Kingdom through a branch, agency or fixed place of business in the UK may be liable to UK taxation on chargeable gains on any gain on a disposal of their Ordinary Shares, if those Ordinary Shares are or have been held, used or acquired for

the purposes of that trade, profession or vocation or for the purposes of that branch, agency or fixed place of business.

If an individual shareholder ceases to be resident or ordinarily resident in the United Kingdom and subsequently disposes of Ordinary Shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that shareholder becoming once again resident or ordinarily resident in the UK.

Individual shareholders may, depending on the number of years for which they have held their Ordinary Shares, be entitled to reduce their capital gains tax liability through the operation of taper relief. Corporate shareholders should qualify for the indexation allowance.

(c) ***Inheritance tax***

The Ordinary Shares are assets situated in the United Kingdom for the purposes of UK inheritance tax. A gift of such shares by, or on the death of, an individual shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the shareholder is neither domiciled nor deemed to be domiciled in the United Kingdom.

(d) ***Stamp duty and stamp duty reserve tax ("SDRT")***

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT, or to persons connected with depositary arrangements or clearance services, who may be liable at a higher rate.

- (i) The allocation and issue of the New Ordinary Shares will not generally give rise to a liability to stamp duty or SDRT.
- (ii) Any subsequent conveyance or transfer on sale of Ordinary Shares will usually be subject to stamp duty at a rate of 0.5 per cent. of the amount or value of the consideration (rounded up, if necessary, to the nearest £5). A charge to SDRT at the rate of 0.5 per cent. may also arise on an unconditional agreement to transfer such shares, although the liability will be cancelled and any SDRT already paid will be repaid if, within six years of the SDRT liability arising, a transfer is executed pursuant to the agreement and stamp duty is paid on that transfer.
- (iii) A transfer of Ordinary Shares into CREST will not generally give rise to a charge to stamp duty or SDRT unless the transfer is made for consideration, in which case SDRT will arise, usually at the rate of 0.5 per cent. of the value of that consideration. A transfer of shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration given.

## **14. Material contracts**

(a) ***Transense Group***

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of publication of this document and which are, or may be, material to the Group or have been entered into by any member of the Group at any time and contain a provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

- (i) the Placing Agreement, as described more fully in paragraph 12 above;
- (ii) the Lock-in Agreement, as described more fully in paragraph 12 above;
- (iii) the Orderly Market Agreement as described more fully in paragraph 12 above;
- (iv) the Nomad and Broker Agreement dated 17 April 2007 between the Company and Noble pursuant to which Noble agrees to act as nominated adviser and broker to the company for the purposes of the AIM Rules for Companies for a fee of £35,000 (plus VAT and expenses) per



annum. Under this agreement, Noble will provide general advice to the Company and the Directors in relation to matters concerning the London Stock Exchange and to other matters relevant to a company whose shares are traded on AIM and carry out the responsibilities of a nominated adviser and broker as set out in the AIM Rules for Nominated Advisers. This agreement also contains certain undertakings given by the Company. The agreement is terminable without cause by either party on three months' written notice. In certain other circumstances, the agreement may be terminated on shorter notice; and

- (v) the Acquisition Agreement dated 22 October 2007 between the Company and the Vendors pursuant to which the Company has agreed, conditionally on those matters described below, to acquire the entire issued share capital of Bishop. The acquisition price is to be satisfied by way of the issue of 36,692,305 Consideration Shares to the Vendors. The Acquisition Agreement also provides for the issue of 843,248 Consideration Shares to Daimler A.G. and Bruce Grey in connection with the cancellation of options to acquire shares in Bishop.

The Acquisition Agreement is conditional, *inter alia*, upon Shareholders passing the Resolution and Second Admission.

The Company has the right to terminate the Acquisition Agreement prior to completion of the Acquisition Agreement if the Company becomes (i) aware of any matter which constitutes a material breach of the warranties given to the Company or (ii) constitutes a material breach of the restrictions on the actions of the Vendors prior to the completion of the Acquisition Agreement.

The Vendors have given certain warranties to the Company in relation to the Bishop Technology Group and its business, which expire, in relation warranties relating to taxation, 7 years following Second Admission, and in relation to other warranties, on the completion of the audit of the accounts of Bishop for the financial year ended 30 June 2008. The liability of the Vendors in respect of most of the warranties is subject to certain limitations, including an aggregate maximum liability and *de minimis* provisions. Further, there is, in relation to certain warranties an aggregate claim threshold of Au\$200,000; if such threshold is reached, then the Vendors are liable for the whole of the aggregate amount of the claims under the warranties and not merely the excess. In addition, the Vendors have given certain undertakings to the Company in respect of the conduct of the business of the Bishop Technology Group pending completion of the Acquisition Agreement.

Under the Acquisition Agreement each of the Vendors has given certain non-compete undertakings to the Company for the 24 months immediately following the date of completion of the Acquisition Agreement. The undertakings provide that, within that period and subject to certain exceptions, the Vendors should not engage in businesses which are in competition with the business of the Bishop Technology Group, shall not solicit customers and clients of the Bishop Technology Group, shall not interfere with the continuance of supplies to the Bishop Technology Group and shall not solicit key employees of the Bishop Technology Group.

Klaus Roeske and John Baxter have undertaken, in respect of certain of their Consideration Shares and subject to certain limited exceptions, to the Company that they will not directly or indirectly transfer the legal and/or the beneficial interest in those Consideration Shares in the 12 month period immediately following Second Admission (the "Lock-in Period"). In addition, following the expiry of the Lock-in Period, those Vendors have agreed for the next 12 months, that any disposals shall be effected through Noble and in accordance with Noble's reasonable requests to ensure an orderly market in the Consideration Shares.

(b) ***Bishop Technology Group***

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Bishop Technology Group within the two years immediately preceding the date of publication of this document and which are, or may be,

material to the Bishop Technology Group or have been entered into by any member of the Bishop Technology Group at any time and contain a provision under which any member of the Bishop Technology Group has any obligation or entitlement which is material to the Bishop Technology Group of the date of this document.

- (i) the BMB Joint Venture Agreement dated 2 July 1998 (and amended on 31 October 2005) between Mercedes Benz Lenkungen GmbH (“MBL”) and Bishop Steering Technology Limited (“BST”), pursuant to which MBL and BST established a German joint venture company, BMB Steering Innovation GmbH (“BMB”). Since the establishment of BMB, MBL has transferred its interest in BMB to Thyssenkrupp Presta Steertec GmbH (“TKPS”). BMB was established to develop, produce (by the process of warm forging), sell and distribute racks for steering gears. The BMB Joint Venture Agreement states that neither shareholder shall sell or otherwise dispose of part or all of its shares in BMB during the period of ten years following the signing of the Agreement (“restriction period”), other than to an affiliate of that party. If either party wishes to sell or otherwise dispose of its shares after the restriction period, the other party will have certain pre-emptive rights.

#### *Management of BMB*

Decisions relating to participations in other entities and changes in BMB’s articles of association require the unanimous approval of both shareholders. Decisions relating to BMB’s business operations are to be taken by the Executive Committee. Under the BMB Joint Venture Agreement, each party shall appoint two Executive Managers to the Executive Committee. The Managing Director(s) of BMB are to be jointly appointed by both shareholders. The Managing Director(s) have day-to-day responsibility for the management of BMB and report to the Executive Committee.

Staff involved in the management of BMB are Bruce Grey, Tim Renfrey and Klaus Roeske.

#### *Other agreements*

In connection with the BMB Joint Venture Agreement, there is a licence agreement in place between BST and BMB dated 17 November 1998 (and amended on 22 October 2004). BST and BMB have also entered into a Sales and Technical Marketing Support Agreement dated 19 December 2000, under which BST agreed to provide BMB with advice with respect to process technology and offer technical assistance as required. In return, BMB agreed to pay certain commissions to Bishop Steering Technology GmbH (the German wholly-owned subsidiary of Bishop); and

- (ii) the BHSC Joint Venture Agreement dated 24 January 2006 (and amended 14 April 2006 and 8 November 2006) between BST and Hando Machinery Co Ltd (“**Hando**”) pursuant to which BST and Hando established a Korean joint venture, Bishop Hando Steering Components Limited (“**BHSC**”) to manufacture hydraulic power steering components in the Republic of Korea for the world market. In addition to being a partner in BHSC, BST is also a supplier of goods and equipment. Under the BHSC Joint Venture Agreement, the parties have agreed not to sell or otherwise dispose of any or all of their shares for the first four years. If either party wishes to sell its shares after this time, it must first make an offer to the other party, in accordance with the terms of the BHSC Joint Venture Agreement.

#### *Management of BHSC*

Certain decisions (relating to changes to the Articles of Association of BHSC, the participation in other entities, raising of capital and distribution of profits of BHSC) require the unanimous approval of the shareholders. Each of BST and Hando have the right to appoint two directors to the Board of BHSC under the BHSC Joint Venture Agreement, which is responsible for the management of BHSC and is entitled to decide on any operational issue of BHSC, other than those issues set aside specifically for the shareholders. The Board has elected a representative director, who has day-to-day responsibility for BHSC and reports to the Board. The Board has

also appointed an Executive Committee with equal representation from both parties, which has certain functions and responsibilities of the Board and reports to the Board.

Bishop staff involved in the management of BHSC are Bruce Grey (Director), Tim Renfrey (Director and Executive Committee member) and Bernd Failenschmid (Executive Committee member). Bishop has not yet named a replacement on the Executive Committee for Chris Jones.

#### *Termination*

The BHSC Joint Venture Agreement continues for so long as both BST and Hando hold shares in BHSC, until termination by written agreement between the parties or until the date of commencement of BHSC's winding up.

#### *Other agreements*

BST and BHSC have also entered into a Licence Agreement dated 8 November 2006, under which BHSC has a non-exclusive, non-transferable licence to use particular BST patents to manufacture certain products in the Republic of Korea and to sell them world wide. BHSC also has a non-exclusive licence to use the BST trade mark in respect of the licensed products.

BST, Hando and BHSC have also entered into a Sales and Marketing Agreement dated 14 April 2006, whereby BST was appointed as BHSC's exclusive sales and marketing agent for all of BHSC's products throughout the world (other than sales to Mando Corporation and Hyundai Mobis, for which Hando was appointed as an exclusive sales agent for all of BHSC's products).

### **15. Working capital**

Having made due and careful enquiry, the Directors and the Proposed Directors are of the opinion that, taking into account available banking facilities and the net proceeds of the Placing, the Company and the Enlarged Group will have sufficient working capital available for their present requirements, that is, for at least the 12 months following the date of First Admission.

### **16. Litigation and arbitration**

#### **(a) *Transense Group***

Neither the Company nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position or profitability, nor are there any such proceedings pending or threatened against any member of the Group of which the Company is aware.

#### **(b) *Bishop Technology Group***

Neither Bishop nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Bishop Technology Group's financial position and profitability, nor are there any such proceedings pending or threatened against any member of the Bishop Technology Group of which Bishop is aware.

## **17. Mandatory bids, squeeze-out and sell-out rules relating to the Ordinary Shares**

### ***Mandatory bid***

The City Code on Takeovers and Mergers applies to the Company. Under Rule 9 of the City Code, if:

- (a) a person acquires an interest in shares in the Company which, when taken together with shares already held by him or persons acting in concert with him, carry 30 per cent. or more of the voting rights in the Company; or
- (b) a person who, together with persons acting in concert with him, is interested in not less than 30 per cent. and not more than 50 per cent. of the voting rights in the Company acquires additional interests in shares which increase the percentage of shares carrying voting rights in which that person is interested,

the acquirer and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for any interests in the Ordinary Shares by the acquirer or its concert parties during the previous 12 months.

### ***Compulsory Acquisition***

Under sections 974 – 991 of the 2006 Act, if an offeror acquires or contracts to acquire (pursuant to a takeover offer) not less than 90 per cent. of the shares (in value and by voting rights) to which such offer relates it may then compulsorily acquire the outstanding shares not assented to the offer.

In addition, pursuant to section 983 of the 2006 Act, if an offeror acquires or agrees to acquire not less than 90 per cent. of the shares (in value and by voting rights) to which the offer relates, any holder of shares to which the offer relates who has not accepted the offer may require the offeror to acquire his shares on the same terms as the takeover offer.

## **18. General**

- (a) The gross proceeds of the Placing are expected to be approximately £5,695,695 (assuming all of the Placing Shares are placed). The total costs and expenses relating to Admission and Placing are £1,325,337 (excluding value added tax).
- (b) KPMG has given and have not withdrawn its written consent to the issue of this document with the inclusion herein of their reports as set out in Parts III and IV of this document.
- (c) Noble has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name in the form and context in which it is included.
- (d) The financial information set out in this document relating to the Group does not constitute statutory accounts within the meaning of section 240 of the Act. BDO Stoy Hayward LLP (“**BDO**”) of Northside House, 69 Tweedy Road, Bromley, Kent, professional auditors attached to the Chartered Accountants Institute of England and Wales has given unqualified audit reports on the consolidated statutory accounts of the Group for each of the two financial years ended 31 December 2004 and 31 December 2005 within the meaning of section 235 of the Act. KPMG Audit plc of Arlington Business Park, Theale, Reading, professional auditors attached to the Chartered Accountants Institute of England and Wales has given an unqualified audit report of the consolidated statutory accounts of the Group for the financial year ended 31 December 2006 within the meaning of section 236 of the Act. None of these reports contained any statements under sub-section 237(2) or (3) of the Act. Statutory accounts of the Company for each of the three financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.
- (e) There are no arrangements in place under which future dividends are to be waived or agreed to be waived.

- (f) The Placing Price is payable in full in cash on acceptance.
- (g) All of the Ordinary Shares are currently admitted to trading on AIM. On 11 October 2007, trading in Ordinary Shares was suspended following the Board's announcement regarding the Acquisition, and will resume on the publication of this document. By virtue of the Acquisition, the Company is currently re-applying for Admission. Other than as described in this document, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made or refused nor are there intended to be any other arrangements for dealings in the Ordinary Shares.
- (h) Save as disclosed in this document, the Directors and the Proposed Directors are not aware of any exceptional factors which have influenced the Group's activities.
- (i) The future profitability of the Enlarged Group will depend upon, amongst other things, its ability to secure and protect the intellectual property relating to the products it will bring to the market. It is fundamental to the business of the Enlarged Group that it obtains and maintains patent protection for its products. Furthermore, the profitability of the Enlarged Group will also depend upon its ability to license out the products to companies with large distribution capabilities and a large market presence, in addition to its own capabilities of distributing its future products.
- (j) Certain information, statements and statistics presented in this document are based on data and reports compiled by industry professionals or organisations and market research firms. The Directors and Proposed Directors confirm that where third party information has been used in this document, the source of such information has been identified and that the information has been accurately reproduced and, so far as the Directors and Proposed Directors are aware and had been able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Information in this document for which no source has been provided has been extracted from management information.
- (k) 62,299,445 New Ordinary Shares will be issued and allotted pursuant to the First Placing and the Second Placing and the Company will apply for the New Ordinary Shares to be admitted to trading on AIM. The ISIN (International Security Number) of the Ordinary Shares is GB0009360198.
- (l) Save as disclosed in this document, there has been no significant change in the trading or financial position of the Group since 30 June 2007 or the Bishop Technology Group, since 30 June 2007, being the date to which the financial information contained in Parts III and IV of this document was prepared.
- (m) The following parties have received fees totalling £10,000 or more in the 12 months preceding the date of this document:

<i>Name</i>	<i>Relationship</i>	<i>Fee (£)</i>
Charles Russell LLP	Solicitors to the Company in relation to IP matters	47,879.81
Bridgewell Group plc	Financial advisers to the Company	30,496.55
Redleaf Communications Ltd	Public relations advisers to the Company	26,813.66
Cantata Communications Ltd	Investor relations advisers to the Company	17,210.00
AA Thornton	Patent advisers to the Company	106,541.61

- (n) Save as disclosed in paragraphs 2, 12 and 18(m) above, no person (excluding the Company's professional advisers to the extent disclosed elsewhere in this document and trade suppliers) in the 12 months preceding the Company's application for Admission received, directly or indirectly, from the Company or has entered into any contractual arrangements to receive, directly or indirectly, from the Company on or after Admission any of the following:

- (i) fees totalling £10,000 or more;

- (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
  - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- (o) Monies received from applicants pursuant to the Placing will be held by Noble until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 4 December 2007 (or such later date as Noble and the Company may agree), application monies will be returned to applicants at their own risk without interest prior to delivery of the shares.
- (p) The Company has a 8.98 per cent. shareholding in Wheelsure Holdings plc (“Wheelsure”), a company that has developed, patented and is seeking to commercialise a wheel nut locking device. The Company also has £25,000 in loan stock outstanding in Wheelsure. The loan bears 9 per cent. interest per annum and matures in February 2010. In addition, Wheelsure has granted the Company 300,324 warrants, 250,000 of which can be exercised for 10 pence per share at any time up to 28 February 2010 and 50,324 of which can be exercised for 12 pence per share at any time up to 5 January 2011.
- (q) During the year ended 30 June 2007, BMB Steering Innovation GmbH acquired Au\$2,832,000 (2006: Au\$6,775,000; 2005: Au\$1,309,000) of goods from the group and paid commission of AU\$111,000 (2006: Au\$130,000, 2005: Au\$109,000). Between 30 June 2007 and 30 September 2007 (being the latest practical date prior to publication of this document), BMB Steering Innovation GmbH acquired Au\$1,113,000 of goods from the group and paid commission of Au\$0.

During the year ended 30 June 2007, Bishop Hando Steering Components Limited paid commission of Au\$181,000 (2006: \$100,000, 2005: nil). Between 30 June 2007 and 30 September 2007 (being the latest practical date prior to publication of this document), Bishop Hando Steering Components Limited paid commission of Au\$0.

In addition to this, there is a Euro based loan owing by BMB Steering Innovation GmbH to Bishop with accrued interest and balances outstanding as follows:

	<i>Loan</i> <i>(Au\$'000)</i>	<i>Accrued</i> <i>Interest</i> <i>(Au\$'000)</i>
30 June 2007	1,620	398
30 June 2006	1,673	791
30 June 2005	1,696	809

As at the 30 September 2007 (being the latest practical date prior to publication of this document), the balances outstanding and accrued interest under this loan were Au\$1,680,499 and Au\$253,435.

Financial information given above that relates to the period between 30 June 2007 and 30 September 2007 (being the latest practical date prior to publication of this document) is sourced from management accounts and has not been audited.

- (r) The Ordinary Shares have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for Admission.
- (s) The provisions of sub-section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in sub-section 94(2) of the Act) which are, or are to be, paid up in cash and, upon Admission, will apply to the authorised but unissued share capital of the Company. As described in paragraph 2 of this Part VI above, statutory rights of pre-emption have been disapplied in order: (i) to permit the Directors to allot 62,299,445 New Ordinary Shares for which subscribers are being procured by 24,763,892 Ordinary Shares pursuant to the Placing; (ii) to give the Directors flexibility in relation to rights or other pre-emptive issues; and (iii) to permit the Directors to allot Ordinary

Shares for cash having a nominal value of up to 5 per cent. of the issued ordinary share capital of the Company following the Placing.

**19. Availability of this Document**

Copies of this document will be available free of charge to the public on any weekday (Saturdays, Sundays and public holidays in England excepted) from the principal place of business of the Company, 66 Heyford Park, Upper Heyford, Bicester, Oxfordshire OX25 5HD and the offices of the Company's Nominated Adviser and Broker, Noble & Company Limited, 120 Old Broad Street, London EC2N 1AR from the date of this document until at least one month after First Admission.

**Dated:** 22 October 2007

# TRANSENSE TECHNOLOGIES PLC

(Incorporated and registered in England and Wales with company number 1885075)

## NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a General Meeting of Transense Technologies PLC (the “**Company**”) will be held at the offices of Travers Smith, 10 Snow Hill, London EC1A 2AL on 16 November 2007 at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution:

### SPECIAL RESOLUTION

THAT:

- (A) the proposed acquisition of Bishop Technology Group Limited as described in the Admission Document of the Company dated 22 October 2007 and of which this notice forms part, on the terms and subject to the conditions of the Acquisition Agreement as defined in the Admission Document (a copy of which has been produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification only), be and is hereby approved, and the directors of the Company (the “**Directors**”) (or a duly authorised committee thereof) be and are hereby authorised to take all such steps as may be necessary, expedient or appropriate in relation thereto and to carry the same into effect with such modifications, variations, revisions, waivers or amendments (providing such modifications, variations, revisions, waivers or amendments are not in the opinion of the Directors, or any such committee, of a material nature) to such agreement or any documents relating thereto as they shall deem necessary, expedient or appropriate;
- (B) the authorised share capital of the Company be increased from £7,000,000 to £18,000,000 by the creation of an additional 110,000,000 ordinary shares of 10 pence each ranking *pari passu* in all respects with the existing ordinary shares of 10 pence in the capital of the Company;
- (C) for the purposes of section 80 of the Companies Act 1985 (the “**Act**”) (and so that expressions used in this resolution shall bear the same meanings as in the said section 80):
  - (i) the Directors be and are hereby authorised generally and unconditionally to exercise all or any powers of the Company to allot relevant securities up to an aggregate nominal amount equal to £6,229,944.50 for the purpose of the Acquisition and the Placing (each as defined in the Admission Document) to such persons and at such times and on such terms as they think proper, such authority to expire, unless sooner revoked or varied by the Company in general meeting, at the conclusion of the next general meeting of the Company;
  - (ii) the Directors be and are generally and unconditionally authorised to exercise all or any powers of the Company to allot relevant securities up to an aggregate nominal amount of £3,575,028.33 (provided that, to the extent that such nominal amount represents more than one third of the nominal value of the issued share capital following Second Admission (as defined in the Admission Document), the Directors undertake not to exercise this power) to such persons and at such times and on such terms as they think proper such authority to expire, unless sooner revoked or varied by the Company in general meeting, at the conclusion of the next general meeting of the Company, but so as to enable the Company before such date to make offers or agreements which would or might require relevant securities to be allotted after such date and to enable the Directors to allot relevant securities in pursuance of such offers or agreements as if the authority conferred thereby had not expired, such authority to be in substitution (with effect from First Admission, as defined in the Admission Document) for all existing authorities granted to the Directors in respect of the allotment of relevant securities, without prejudice to any allotments made pursuant to the terms of such authorities,

so that all previous authorities of the Directors pursuant to the said section 80 be and are hereby revoked;



- (D) for the purposes of and pursuant to section 95(1) of the Act, the Directors be and they are hereby authorised and empowered to allot equity securities (within the meaning of section 94(2) of the Act) of the Company for cash pursuant to the general authority and power conferred by Part C of this Resolution as if section 89(1) of the Act did not apply to any such allotment provided that this authority and power shall, unless renewed, varied or revoked, expire at the conclusion of the next annual general meeting of the Company or 15 months from the date of the passing of this resolution (whichever is the earlier), but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after the expiry of such period and the Directors may allot equity securities in pursuance of any such offer or agreement as if the authority concerned hereby had not expired, and provided further that this authority and power shall be limited:
- (i) to the allotment of equity securities in connection with an issue or offer by way of rights in favour of holders of equity securities and any other person entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange;
  - (ii) to the allotment of 24,763,892 Ordinary Shares pursuant to the Placing (as defined in the Admission Document);
  - (iii) to the allotment (otherwise than pursuant to the power referred to in paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of £595,838.06 (provided that to the extent that such nominal amount represents more than 5 per cent. of the nominal value of the issued share capital immediately following Second Admission, the Directors undertake not to exercise such power); and
- (E) the Transense Technologies plc 2007 Unapproved Discretionary Share Option Scheme (the “2007 Unapproved Scheme”), the principal terms of which are summarised in paragraph 4.4 of Part VI of the Admission Document, and copies of which have been produced to the meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved, and the Directors be and are hereby authorised to do all such things as may be necessary to carry the 2007 Unapproved Scheme into effect.

**BY ORDER OF THE BOARD**

**WATLINGTON SECURITIES LIMITED**

*(Company Secretary)*

Dated: 22 October 2007

*Registered office:*

Transense Technologies plc  
36 Elder Street  
London  
E1 6BT

**NOTES:**

1. Any member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint one or more proxies to attend, speak and vote at a meeting of the Company. A proxy need not be a member of the Company.
2. A form of proxy is provided with this notice and instructions for use are shown on the form. To be valid, a completed form, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority,

must be returned to the Company's registrars, Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent, BR3 4BR, so as to arrive by 11.00 a.m. on 14 November 2007. Deposit of a form of proxy shall not preclude a member from attending and voting in person at the meeting or any adjournment of the meeting.

3. The form of proxy must be signed and dated by the shareholder or his/her attorney duly authorised in writing. If the shareholder is a company, it may execute under its common seal, by the signature of a director and its secretary or two directors or other authorised signatories in the name of the Company or by the signature of a duly authorised officer or attorney.
4. Shareholders may submit their vote electronically via the registrars website. Log on to [www.capitashareportal.com](http://www.capitashareportal.com) and follow the on screen instructions.
5. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members as at 11.00 a.m. on 14 November 2007 or, if the meeting is adjourned, members entered on the Company's register of members 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after 11.00 a.m. on 14 November 2007, or if the meeting is adjourned, on the register 48 hours before the time fixed for the adjourned meeting, will be disregarded in determining the rights of any person to attend and vote at the meeting.
6. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
7. Euroclear members who wish to appoint a proxy or proxies through the Euroclear electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) of the meeting by using the procedures described in the Euroclear Manual. Euroclear personal members or other Euroclear sponsored members, and those Euroclear members who have appointed a voting services provider(s), should refer to their Euroclear sponsor or voting provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the Euroclear service to be valid, the appropriate Euroclear message (a "Euroclear Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the Euroclear Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the Euroclear Application Host) from which the Company's agent is able to retrieve the message by enquiry to Euroclear in the manner prescribed by Euroclear. After this time any change of instructions to proxies appointed through Euroclear should be communicated to the appointee through other means.

Euroclear members and, where applicable, their Euroclear sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in Euroclear for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of Euroclear Proxy Instructions. It is the responsibility of the Euroclear member concerned to take (or, if the Euroclear member is a Euroclear personal member or sponsored member or has appointed a voting service provider(s), to procure that his Euroclear sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the Euroclear system by any particular time. In this connection, Euroclear member and, where applicable, their Euroclear sponsors or voting service provider(s) are referred, in particular, to whose sections of the Euroclear Manual concerning practical limitations of the Euroclear system and timings.

The Company may treat as invalid a Euroclear Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

8. In the absence of any specific directions, the person appointed proxy may vote or abstain from voting as he or she thinks fit (i) on the Resolution and unless instructed otherwise, the person appointed proxy may also vote or abstain from voting as he or she thinks fit on any other business (including amendments to any Resolution or adjourn the meeting) which may properly come before the meeting.
9. If you wish to appoint as your proxy someone other than the Chairman of the meeting, cross out the words "the Chairman of the Meeting" in the form of proxy and write on the dotted line the full name and address of your proxy. The change should be initialled.
10. If two or more valid forms of proxy are delivered in respect of the same Ordinary Share, the one which was delivered last (regardless of its date or the date of its execution) will be valid, to the exclusion of any ones previously delivered.
11. The following documents are available for inspection at the principal place of business of the Company, 66 Heyford Park, Bicester, Oxfordshire OX25 5HD, during usual business hours on any weekdays (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the conclusion of the General Meeting and will be available for inspection at the place of the General Meeting for at least 15 minutes prior to and during the Meeting:
  - (a) the register of interests of the Directors and their families in the share capital of the Company;
  - (b) the Acquisition Agreement; and
  - (c) the 2007 Unapproved Scheme.



