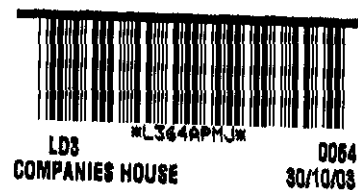


## **Xaar Technology Limited**

Financial Statements for the year ended 31 December 2002  
together with Directors' report and Auditors' report

Registered number: 2469592



## **Xaar Technology Limited**

### **Directors' report for the year ended 31 December 2002**

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year ended 31 December 2002.

### **Principal activity and business review**

The principal activity of the company continues to be the research, development and commercial exploitation of a patented ink jet printing technology. The directors are of the opinion that retained earnings will improve in the next year.

### **Research and development**

The majority of the company's employees are involved in research and development and £2.0m (2001 - £3.8m) was spent on research and development in the year.

### **Results and dividends**

Turnover for the year was £2.4m (2001 - £5.1m) and comprises licence fees and royalties. The loss for the year after taxation was £762,000 (2001 - £645,000). The directors are unable to recommend the payment of a dividend (2001 - £nil).

### **Directors and their interests**

The directors who served during the year were as follows: -

J C L Fineman (resigned 01/07/2003)  
G N MacLeod (resigned 20/05/2002)  
N A Berry (appointed 20/05/2002)  
I Dinwoodie (appointed 01/07/2003)

All directors are also directors of Xaar plc in the year. Details of remuneration and share option arrangements are included in the Remuneration Report in the Report and Accounts of Xaar plc for the year ended 31 December 2002.

The directors who held office at 31 December 2002 had no interest in the issued shares of the company, which are 100% owned by Xaar plc. Details of directors' interests in the shares of the parent company are disclosed in the Report and Accounts of Xaar plc for the year ended 31 December 2002.

## **Xaar Technology Limited**

### **Directors' report (continued)**

#### **Statement of Directors' responsibilities**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to: -

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Supplier payment policy**

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The number of supplier days outstanding at the year end was 56 days (2001 - 58 days).

#### **Auditors**

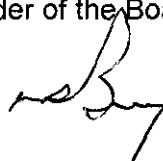
During the year, Arthur Andersen resigned as the company's auditors following the agreement it reached with Deloitte & Touche under which partners and staff from Arthur Andersen joined Deloitte & Touche. The directors used their powers under the Companies Act 1985 to appoint Deloitte & Touche as the company's auditors to fill the vacancy created by Arthur Andersen's resignation.

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. The company has in place an elective regime to dispense with the need to hold annual general meetings, lay reports and accounts before the shareholders at a general meeting, and the requirement to re-appoint the auditors, Deloitte & Touche LLP, annually.

Science Park  
Cambridge  
CB4 0XR

29 October 2003  
Registered no. 2469592

By order of the Board



N A Berry  
Director

## **Independent auditors' report to the members of Xaar Technology Limited**

We have audited the financial statements of Xaar Technology Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and 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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Cambridge

*29 October 2003*

**Xaar Technology Limited**

**Profit and loss account**

**For the year ended 31 December 2002**

	Notes	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
<b>Turnover</b>	2	2,360	5,059
Cost of sales		(152)	(163)
<b>Gross profit</b>		2,208	4,896
Operating expenses (net)	3	(2,897)	(5,279)
<b>Operating loss</b>		(689)	(383)
Interest payable and similar charges	4	(17)	(49)
<b>Loss on ordinary activities before taxation</b>	5	(706)	(432)
Tax on loss on ordinary activities	7	(56)	(213)
<b>Retained loss for the financial year</b>	13	(762)	(645)

There were no recognised gains or losses in either year other than the loss for the year and therefore no statement of total recognised gains and losses has been provided.

All operations relate to continuing activities.

The accompanying notes are an integral part of this profit and loss account.

**Xaar Technology Limited**

**Balance sheet  
As at 31 December 2002**

	Notes	<b>2002 £'000</b>	<b>2001 £'000</b>
<b>Fixed assets</b>			
Tangible assets	8a	1,653	2,439
Investments	8b	20	20
		<u>1,673</u>	<u>2,459</u>
<b>Current assets</b>			
Debtors	9	4,906	5,026
Cash at bank and in hand		-	1
		<u>4,906</u>	<u>5,027</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>(1,065)</u>	<u>(1,100)</u>
<b>Net current assets</b>		<u>3,841</u>	<u>3,927</u>
<b>Total assets less current liabilities</b>		5,514	6,386
<b>Creditors: amounts falling due after more than one year</b>	11	(111)	(232)
<b>Net assets</b>		<u>5,403</u> =====	<u>6,154</u> =====
<b>Capital and reserves</b>			
Called-up share capital	12	4,433	4,426
Share premium account	13	1,099	1,095
Profit and loss account	13	(129)	633
<b>Shareholders' funds - all equity</b>	14	<u>5,403</u> =====	<u>6,154</u> =====

Signed on behalf of the Board

N A Berry  
Director

29 October 2003

The accompanying notes are an integral part of this balance sheet.

## **Xaar Technology Limited**

### **Notes to the financial statements**

#### **1. Accounting policies**

The principal accounting policies, all of which have been applied consistently throughout the year and the prior year are set out below:

##### **a) *Basis of accounting***

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

##### **b) *Tangible fixed assets***

All tangible fixed assets are shown at original historical cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life, as follows:

Improvements to leasehold property	10 years
Plant and machinery, furniture, fittings and equipment	3 - 5 years
Motor vehicles	3 years

Residual value is calculated on prices prevailing at the date of acquisition.

##### **c) *Investments***

Fixed asset investments are shown at cost less any provision for impairment.

##### **d) *Foreign currency***

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Gains or losses arising from a change in exchange rates subsequent to the date of the transactions are included in the profit and loss account.

##### **e) *Research and development***

Research and development costs, including the costs associated with the acquisition, registration and development of patents and know-how, are written off to the profit and loss account as incurred.

##### **f) *Pension costs***

Xaar Technology Limited employees are members of the Xaar Plc group's defined contribution pension scheme. Amounts charged in the profit and loss account comprise employer's contributions payable to the company's group personal pension scheme in respect of pensionable payroll costs for the accounting year.

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **1. Accounting policies (continued)**

##### **g) *Turnover***

Turnover comprises licence and development fees receivable under agreements (gross of any tax withheld), royalties receivable, and project consultancy fees, net of trade discounts, VAT and other sales related taxes.

##### **h) *Leases***

Assets held under finance leases are initially capitalised at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability. Hire purchase assets are dealt with similarly except that assets are depreciated over their useful economic lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

##### **i) *Taxation***

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### **j) *Cash flow statement***

The company has taken advantage of the exemption permitted in paragraph 5(a) of Financial Reporting Standard No. 1 (Revised), not to include a cash flow statement in its financial statements as its ultimate parent company, Xaar plc (of which Xaar Technology Limited is a wholly owned subsidiary), prepares consolidated financial statements which are publicly available.



# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **2. Segment information**

Turnover by class of business:

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Licence fees and Royalties	2,360	5,059
	=====	=====

Turnover by geographical segment:

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Europe & Middle East	1,598	2,750
Asia	681	2,074
Americas	81	235
	-----	-----
	2,360	5,059
	=====	=====

All turnover originates in the UK. No additional segmental information is provided on the basis that it would be seriously prejudicial to the interests of the company.

### **3. Operating expenses (net)**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Administrative Expenses	2,897	5,279
	=====	=====

### **4. Interest payable and similar charges**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Finance leases and hire purchase contracts	17	49
	=====	=====

## Xaar Technology Limited

### Notes to the financial statements (continued)

#### 5. Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging (crediting):

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
Auditors' remuneration		
- audit	13	15
- non audit	8	-
Depreciation		
- on assets owned	720	573
- on assets held under finance leases	125	347
Staff costs (see note 6)	696	1,608
Operating lease rentals in respect of:		
- Hire of plant and machinery	5	9
- Land and buildings	371	370
(Profit)/loss on disposal of tangible fixed assets	(17)	1
	=====	=====

## Xaar Technology Limited

### Notes to the financial statements (continued)

#### 6. Staff costs

Employee costs during the year amounted to:	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
Wages and salaries	596	1,373
Social security costs	60	139
Other pension costs	40	96
	<hr/> 696	<hr/> 1,608
	<hr/> <hr/>	<hr/> <hr/>

The average monthly number of persons employed by the company was as follows:

	<b>2002</b> <b>Number</b>	<b>2001</b> <b>Number</b>
Research and development	19	46
Sales and marketing	-	1
Administration	1	-
	<hr/> 20	<hr/> 47
	<hr/> <hr/>	<hr/> <hr/>

#### Directors' remuneration

All the directors of Xaar Technology Limited are also directors of the parent company, Xaar plc.

Details of remuneration and share option arrangements are included in the Remuneration Report in the Report and Accounts of Xaar plc for the year ended 31 December 2002. The directors of the company did not receive any remuneration during the year in respect of their services to the company (2001: £nil).

One director exercised share options in the year (2001: one).

# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **7. Tax on loss on ordinary activities**

The tax charge comprises:

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Foreign tax	56	213
	=====	=====

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the UK (30%). The differences are explained below:

Loss on ordinary activities before tax	(706)	(432)
	=====	=====
Tax at 30%	(212)	(130)
Effects of:		
Expenses not deductible for tax purposes	(75)	1
Capital allowances in deficit (excess) of depreciation	43	(45)
Current Year tax losses not utilised	424	389
Movement in short term timing differences	(18)	(21)
Foreign tax expensed	(17)	(62)
Additional 50% deduction for R&D expenditure	(145)	(132)
Foreign withholding tax suffered	56	213
	-----	-----
	56	213
	=====	=====

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses as the directors consider that there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £1,505,039 (2001 - £1,055,990). The asset would be recovered if the company was to make future taxable income.

# Xaar Technology Limited

## Notes to the financial statements (continued)

### 8a. Tangible fixed assets

	<i>Leasehold improvements</i>	<i>Plant &amp; machinery</i>	<i>Furniture, fittings &amp; equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2002	947	4,298	665	260	6,170
Additions	21	89	61	24	195
Disposals	-	(39)	-	(279)	(318)
At 31 December 2002	968	4,348	726	5	6,047
<b>Depreciation</b>					
At 1 January 2002	276	2,935	416	104	3,731
Charge for the year	98	592	96	59	845
Disposals	-	(22)	-	(160)	(182)
At 31 December 2002	374	3,505	512	3	4,394
<b>Net book value</b>					
At 31 December 2002	594	843	214	2	1,653
At 31 December 2001	671	1,363	249	156	2,439
Leased assets included in the above:					
<b>Net book value</b>					
At 31 December 2002	-	185	57	2	244
At 31 December 2001	-	720	67	126	913

### 8b. Fixed asset investment

An Employee Benefit Trust was established in 1995 to hold shares for the benefit of the employees of the company. Xaar Trustee Limited was formed during 1995 to act as trustee to the Trust. At 31 December 2002 and 2001 there were 91,250 10p ordinary shares in Xaar plc held in trust by Xaar Trustee Limited at a cost of £20,000. The aggregate market value of these shares at 31 December 2002 was £21,900. The entire issued and paid up ordinary share capital of Xaar Trustee Limited is owned by Xaar Technology Limited (2 ordinary shares of £1 each).

# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **9. Debtors**

Amounts falling due within one year:

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	145	147
Amounts owed by group undertakings	3,614	4,465
VAT	101	105
Prepayments and accrued income	1,046	309
	-----	-----
	4,906	5,026
	=====	=====

### **10. Creditors: amounts falling due within one year**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Obligations under finance leases and hire purchase contracts	97	149
Bank overdrafts	35	-
Trade creditors	574	551
Taxation and social security	107	105
Amount due to pension scheme	30	30
Accruals	222	265
	-----	-----
	1,065	1,100
	=====	=====

### **11. Creditors: amounts falling due after more than one year**

The following amounts are included in creditors falling due after more than one year:

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Obligations under finance leases and hire purchase Contracts, due between 2 to 5 years	111	232
	=====	=====

# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **12. Called-up share capital**

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
<i>Authorised:</i>		
5,132,072 ordinary shares of £1 each	5,132 =====	5,132 =====
<i>Allotted, called-up and fully paid:</i>		
4,433,322 (2001: 4,426,322) ordinary shares of £1 each	4,433 =====	4,426 =====

The increase in share capital during the year is solely attributable to the issue of shares pursuant to share option exercises set out below.

Options have been granted to certain employees to subscribe for ordinary shares of £1 each. At 31 December 2002 a total of 12,000 (2001 – 19,000) options were outstanding.

	<i>At</i> <i>1/1/2002</i>	<i>No. of</i> <i>options</i> <i>exercised</i>	<i>At</i> <i>31/12/2002</i>	<i>Option</i> <i>price</i>
Options outstanding	<b>19,000</b> =====	<b>(7,000)</b> =====	<b>12,000</b> =====	<b>£1.50</b> =====

Options are exercisable between three and seven years after the date of the grant. All remaining options are subject to a put and call mechanism, whereby each £1 Xaar Technology Limited share option exercised is exchanged for ten 10p shares in Xaar plc (the parent company). Options outstanding at 31 December 2002 were granted as follows:

<i>No. of shares</i> <i>Under option</i>	<i>Date of</i> <i>Grant</i>
12,000	9/5/1996

## Xaar Technology Limited

### Notes to the financial statements (continued)

#### 13. Reserves

The movement on reserves for the year is as follows:

	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>	<b>Total £'000</b>
At 1 January 2002	1,095	633	1,728
Retained loss for the financial year	-	(762)	(762)
Exercise of share options	4	-	4
	-----	-----	-----
At 31 December 2002	1,099	(129)	970
	=====	=====	=====

The share premium account is not distributable.

#### 14. Reconciliation of movements in shareholders' funds

	<b>2002 £'000</b>	<b>2001 £'000</b>
Loss for the financial year	(762)	(645)
New shares issued	11	120
	-----	-----
Net decrease to shareholders' funds	(751)	(525)
Opening shareholders' funds	6,154	6,679
	-----	-----
Closing shareholders' funds	5,403	6,154
	=====	=====



# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **15. Guarantees and other financial commitments**

#### **a) Capital commitments**

At the end of the year, capital commitments were:

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Contracted for but not provided for	73	32
	=====	=====

#### **b) Lease commitments**

The company has entered into non-cancellable leases in respect of office equipment and fixtures and fittings, the payments for which extend over a period of up to 3 years. The total rental for the year was £5,000 (2001: £9,000).

In addition, the company leases land and buildings. The rental for the year was £371,000 (2001: £370,000).

The minimum annual rentals under non-cancellable operating leases are as follows:

	<i>Property</i>		<i>Fixtures &amp; fittings</i>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Operating leases which expire:				
- within 1 year	-	-	2	3
	=====	=====	=====	=====
- between 2 and 5 years	-	-	31	4
	=====	=====	=====	=====
- after 5 years	371	375	-	-
	=====	=====	=====	=====

### **16. Related party disclosures**

As the company is a 100% owned subsidiary of Xaar plc, whose consolidated accounts are publicly available, it is not required to disclose transactions with other group undertakings that would otherwise be required under Financial Reporting Standard No. 8 'Related party disclosures'.

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **17. Parent company and controlling party**

At the year-end the company was a fully owned subsidiary undertaking of Xaar plc registered in England and Wales. The directors consider Xaar plc to be the ultimate controlling party of the company.

The largest and smallest group in which the results of the Company are consolidated is that headed by Xaar plc, whose principal place of business is Science Park, Cambridge CB4 OXR. The consolidated financial statements of the group are available to the public and may be obtained from the above address.