

Xaar Technology Limited

Financial Statements for the year ended 31 December 1999
together with Directors' report

Registered number: 2469592



Xaar Technology Limited

Directors' report for the year ended 31 December 1999

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 1999.

Principal activity and business review

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

Research and development

The majority of the company's employees are involved in research and development and £3.7m (1998 - £2.7m) was spent on research and development in the year.

Results and dividends

Turnover for the year was £7.0m (1998 - £1.1m) and comprises licence and development fees and royalties. The profit for the year after taxation was £2,225,000 (1998 loss - £2,195,000). The directors do not recommend the payment of a dividend (1998 - nil).

Directors and their interests

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

G T Wylie
J A Lowe

Both directors are also directors of 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 1999.

The directors who held office at 31 December 1999 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 1999.

Year 2000

All matters identified in the company's Year 2000 plan were attended to during 1999. No significant costs were incurred in completing the project. Since 31 December 1999 there have been no material matters which have arisen in respect of the Year 2000 issue.

Xaar Technology Limited

Directors' report (continued)

Directors' responsibilities

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 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, calculated using the prescribed formula, was 69 days (1998 - 79 days).

Auditors

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Science Park
Cambridge
CB4 0XR

By order of the Board

15 February 2000



Registered no. 2469592

J A Lowe
Secretary

Xaar Technology Limited

Auditors' report

To the Shareholders of Xaar Technology Limited

We have audited the accounts on pages 5 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of audit opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1999 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

Betjeman House

104 Hills Road

Cambridge

CB2 1LH

15 February 2000

Xaar Technology Limited

Profit and loss account

For the year ended 31 December 1999

| | Notes | 1999 £'000 | 1998 £'000 |
|---|-------|-----------------------------|-----------------------------|
| Turnover | 2 | 6,969 | 1,136 |
| Operating expenses (net) | 3 | (4,353) | (3,278) |
| Operating profit/(loss) | | 2,616 | (2,142) |
| Interest payable and similar charges | 4 | (53) | (43) |
| Profit/(loss) on ordinary activities before taxation | 5 | 2,563 | (2,185) |
| Tax on profit/(loss) on ordinary activities | 7 | (338) | (10) |
| Retained profit/(loss) for the financial year | | 2,225 | (2,195) |

There were no recognised gains and losses except for the profit/(loss) for the periods and therefore no statement of total recognised gains and losses has been provided.

All operations relate to continuing activities.

A statement of movements on reserves is given in note 13.

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

Xaar Technology Limited

Balance Sheet

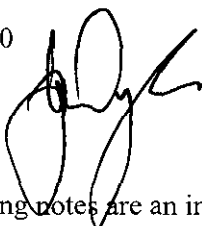
As at 31 December 1999

| | Notes | 1999 £'000 | 1998 £'000 |
|--|-------|---------------------|---------------------|
| Fixed assets | | | |
| Tangible assets | 8a | 3,328 | 3,430 |
| Investments | 8b | 20 | 20 |
| | | <u>3,348</u> | <u>3,450</u> |
| Current assets | | | |
| Debtors | 9 | 6,952 | 2,258 |
| Cash at bank and in hand | | 190 | - |
| | | <u>7,142</u> | <u>2,258</u> |
| Creditors: amounts falling due within one year | 10 | <u>(4,380)</u> | <u>(2,228)</u> |
| Net current assets | | <u>2,762</u> | <u>30</u> |
| Total assets less current liabilities | | 6,110 | 3,480 |
| Creditors: amounts falling due after more than one year | 11 | (415) | (227) |
| Net assets | | <u><u>5,695</u></u> | <u><u>3,253</u></u> |
| Capital and reserves | | | |
| Called-up share capital | 12 | 4,257 | 4,112 |
| Share premium account | 13 | 1,010 | 938 |
| Retained earnings/(deficit) | 13 | 428 | (1,797) |
| Shareholders' funds - all equity | 14 | <u><u>5,695</u></u> | <u><u>3,253</u></u> |

Signed on behalf of the Board

15 February 2000

G T Wylie
Director



J A Lowe
Director



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 with 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 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 |

c) *Investments*

Fixed asset investments are shown at cost less 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*

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.

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.

Xaar Technology Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

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.

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*

Corporation tax payable is provided on taxable profits at the current rate.

Foreign tax payable in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) is calculated on the liability method. Deferred tax is provided on timing differences, which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

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:

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|------------------------------|-----------------------------|-----------------------------|
| Licence and development fees | 5,852 | 125 |
| Royalties | 1,117 | 1,011 |
| | <u>6,969</u> | <u>1,136</u> |

Turnover by geographical segment:

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|---------------|-----------------------------|-----------------------------|
| Europe | 2,172 | 756 |
| Rest of World | 4,797 | 380 |
| | <u>6,969</u> | <u>1,136</u> |

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)

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|----------------------------------|-----------------------------|-----------------------------|
| Research and development costs | 3,689 | 2,686 |
| Selling and administration costs | 664 | 592 |
| | <u>4,353</u> | <u>3,278</u> |

4. Interest payable and similar charges

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|--|-----------------------------|-----------------------------|
| Finance leases and hire purchase contracts | 53 | 43 |

Xaar Technology Limited

Notes to the financial statements (continued)

5. Profit/(loss) on ordinary activities before taxation

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

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|--|-----------------------------|-----------------------------|
| Auditors' remuneration | | |
| - audit | 10 | 10 |
| Depreciation | | |
| - on assets owned | 671 | 355 |
| - on assets held under finance leases | 274 | 224 |
| Staff costs (see note 6) | 1,148 | 1,074 |
| Operating lease rentals in respect of: | | |
| - Hire of plant and machinery | 10 | 6 |
| - Land and buildings | 331 | 191 |
| Loss/(profit) on disposal of tangible fixed assets | 17 | (9) |
| | ===== | ===== |

Xaar Technology Limited

Notes to the financial statements (continued)

6. Staff costs

| | | |
|---|-----------------------------|-----------------------------|
| Employee costs during the year amounted to: | 1999 £'000 | 1998 £'000 |
| Wages and salaries | 967 | 907 |
| Social security costs | 100 | 92 |
| Other pension costs | 81 | 75 |
| | <hr/> | <hr/> |
| | 1,148 | 1,074 |
| | <hr/> | <hr/> |

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

| | | |
|--------------------------|------------------------------|------------------------------|
| | 1999 Number | 1998 Number |
| Research and development | 34 | 31 |
| Sales and marketing | 3 | 4 |
| | <hr/> | <hr/> |
| | 37 | 35 |
| | <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 1999. The directors of the company did not receive any remuneration during the year in respect of their services to the company (1998: nil).

One director exercised share options in the period (1998: none).

7. Tax on profit/(loss) on ordinary activities

The tax charge comprises:

| | | |
|-------------|-----------------------------|-----------------------------|
| | 1999 £'000 | 1998 £'000 |
| Foreign tax | 338 | 10 |
| | <hr/> | <hr/> |
| | 338 | 10 |
| | <hr/> | <hr/> |

No deferred tax has been provided due to the availability of tax losses carried forward of approximately £3.4m million (1998: £4.2 million).

Xaar Technology Limited

Notes to the financial statements (continued)

8a. Tangible fixed assets

| | <i>Leasehold property</i> | <i>Plant & machinery</i> | <i>Furniture, fittings & equipment</i> | <i>Motor vehicles</i> | <i>Total</i> |
|---|-------------------------------|----------------------------------|--|---------------------------|--------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Cost | | | | | |
| At 1 January 1999 | 827 | 3,017 | 431 | 262 | 4,537 |
| Additions | 22 | 784 | 69 | - | 875 |
| Disposals | - | (54) | - | (26) | (80) |
| At 31 December 1999 | 849 | 3,747 | 500 | 236 | 5,332 |
| Depreciation | | | | | |
| At 1 January 1999 | 20 | 906 | 85 | 96 | 1,107 |
| Charge for the year | 85 | 688 | 119 | 53 | 945 |
| Disposals | - | (31) | - | (17) | (48) |
| At 31 December 1999 | 105 | 1,563 | 204 | 132 | 2,004 |
| Net book value | | | | | |
| At 31 December 1999 | 744 | 2,184 | 296 | 104 | 3,328 |
| At 31 December 1998 | 807 | 2,111 | 346 | 166 | 3,430 |
| Leased assets included in the above: | | | | | |
| Net book value | | | | | |
| At 31 December 1999 | - | 1,270 | 10 | 72 | 1,352 |
| At 31 December 1998 | - | 490 | 15 | 138 | 643 |

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 1999 and 1998 there were 91,250 10p ordinary shares in Xaar plc held in trust by Xaar Trustee Limited at a cost of £20,000. 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

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|------------------------------------|-----------------------------|-----------------------------|
| Trade debtors | 2,730 | 231 |
| Amounts owed by group undertakings | 3,753 | 1,351 |
| VAT | 26 | 87 |
| Prepayments and accrued income | 443 | 589 |
| | <u>6,952</u> | <u>2,258</u> |

10. Creditors: amounts falling due within one year

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|--|-----------------------------|-----------------------------|
| Bank overdraft | - | 9 |
| Obligations under finance leases and hire purchase contracts | 722 | 279 |
| Trade creditors | 541 | 979 |
| Amounts owed to group undertakings | 2,802 | 672 |
| Taxation and social security | 89 | 88 |
| Amount due to pension scheme | 22 | 22 |
| Accruals | 204 | 179 |
| | <u>4,380</u> | <u>2,228</u> |

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

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

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|---|-----------------------------|-----------------------------|
| Obligations under finance leases and hire purchase contracts, due between 2 to 5 years | <u>415</u> | <u>227</u> |

Xaar Technology Limited

Notes to the financial statements (continued)

12. Called-up share capital

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|--|-----------------------------|-----------------------------|
| <i>Authorised ordinary shares:</i> | | |
| 5,132,072 ordinary shares of £1 each | 5,132 ===== | 5,132 ===== |
| <i>Allotted, called-up and fully paid:</i> | | |
| 4,257,100 (1998: 4,111,609) ordinary shares of £1 each | 4,257 ===== | 4,112 ===== |

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 1999 a total of 188,222 (1998 – 333,713) options were outstanding and exercisable on the following terms:

| | <i>At</i> <i>1/1/99</i> | <i>No. of</i> <i>options</i> <i>exercised</i> | <i>At</i> <i>31/12/99</i> | <i>Option</i> <i>price</i> |
|-----------|----------------------------|---|----------------------------------|-------------------------------|
| Directors | | | | |
| G T Wylie | 148,859 | (43,303) | 105,556 | £1.50 |
| Employees | 184,854 | (102,188) | 82,666 | £1.50 |
| | ----- 333,713 ===== | ----- (145,491) ===== | ----- 188,222 ===== | |

Options are exercisable between three and seven years after the date of 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).

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</i> | <i>Retained earnings/ (deficit)</i> | <i>Total</i> |
|--|----------------------------------|---|--------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| At 1 January 1999 | 938 | (1,797) | (859) |
| Retained profit for the financial year | - | 2,225 | 2,225 |
| Exercise of share options | 72 | - | 72 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 1999 | 1,010 | 428 | 1,438 |
| | <hr/> | <hr/> | <hr/> |

The share premium account is not distributable.

14. Reconciliation of movements in shareholders' funds

| | <i>1999 £'000</i> | <i>1998 £'000</i> |
|---|-----------------------|-----------------------|
| Opening shareholders' funds | 3,253 | 5,409 |
| Retained profit/(loss) for the financial year | 2,225 | (2,195) |
| New shares issued | 217 | 39 |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 5,695 | 3,253 |
| | <hr/> | <hr/> |

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:

| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
|-------------------------------------|-----------------------------|-----------------------------|
| Contracted for but not provided for | <u>69</u> | <u>329</u> |

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 £10,000 (1998: £6,000).

In addition, the company leases land and buildings. The rental for the year was £331,200 (1998: £191,000).

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

| | <i>Property</i> | | <i>Fixtures & fittings</i> | |
|--------------------------------|-----------------------------|-----------------------------|--------------------------------|-----------------------------|
| | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> | <i>1999</i> <i>£'000</i> | <i>1998</i> <i>£'000</i> |
| Operating leases which expire: | | | | |
| - within 1 year | <u>-</u> | <u>-</u> | <u>1</u> | <u>3</u> |
| - between 2 and 5 years | <u>-</u> | <u>-</u> | <u>9</u> | <u>9</u> |
| - after 5 years | <u>343</u> | <u>343</u> | <u>-</u> | <u>-</u> |

16. Related party disclosures

As the company is a 100% owned subsidiary of a group, 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.