

Xaar Technology Limited

Financial Statements for the year ended 31 December 2001
together with Directors' report and Auditors' report

Registered number: 2469592



Xaar Technology Limited

Directors' report for the year ended 31 December 2001

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 2001.

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 turnover will increase and 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 £3.8m (2000 - £3.3m) was spent on research and development in the year.

Results and dividends

Turnover for the year was £5.1m (2000 - £6.4m) and comprises licence and development fees and royalties. The loss for the year after taxation was £645,000 (2000 - £850,000 profit). The directors do not recommend the payment of a dividend (2000 - nil).

Directors and their interests

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

J A Lowe (resigned 27/03/2001)

J C L Fineman (appointed 13/02/2001)

G N MacLeod (appointed 27/03/2001, resigned 20/05/2002)

N A Berry (appointed 20/05/2002)

All 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 2001.

The directors who held office at 31 December 2001 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 2001.

Xaar Technology Limited

Directors' report (continued)

Statement of 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 was 58 days (2000 – 50 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

21 June 2002

Registered no. 2469592

By order of the Board



N A Berry
Director

Xaar Technology Limited

Directors' report (continued)

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N A Berry
Director

Xaar Technology Limited**To the shareholders of Xaar Technology Limited**

We have audited the financial statements of Xaar Technology Limited for the year ended 31 December 2001 which are set out on pages 5 to 17. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

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 judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2001 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

Betjeman House
104 Hills Road
Cambridge
CB2 1LH

21 June 2002

Xaar Technology Limited

**Profit and loss account
For the year ended 31 December 2001**

	Notes	2001 £'000	2000 £'000
Turnover	2	5,059	6,447
Cost of sales		(163)	(571)
Gross profit		4,896	5,876
Operating expenses (net)	3	(5,279)	(4,592)
Operating (loss)/profit		(383)	1,284
Interest payable and similar charges	4	(49)	(74)
(Loss)/profit on ordinary activities before taxation	5	(432)	1,210
Tax on (loss)/profit on ordinary activities	7	(213)	(360)
Retained (loss)/profit for the financial year	13	(645)	850

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

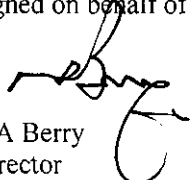
All operations relate to continuing activities.

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

Xaar Technology Limited**Balance sheet
As at 31 December 2001**

	Notes	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	8a	2,439	2,720
Investments	8b	20	20
		<u>2,459</u>	<u>2,740</u>
Current assets			
Debtors	9	5,026	5,501
Cash at bank and in hand		1	1
		<u>5,027</u>	<u>5,502</u>
Creditors: amounts falling due within one year	10	<u>(1,100)</u>	<u>(1,452)</u>
Net current assets		<u>3,927</u>	<u>4,050</u>
Total assets less current liabilities		6,386	6,790
Creditors: amounts falling due after more than one year	11	(232)	(111)
Net assets		<u><u>6,154</u></u>	<u><u>6,679</u></u>
Capital and reserves			
Called-up share capital	12	4,426	4,346
Share premium account	13	1,095	1,055
Profit and loss account	13	633	1,278
Shareholders' funds - all equity	14	<u><u>6,154</u></u>	<u><u>6,679</u></u>

Signed on behalf of the Board


N A Berry
Director

21 June 2002

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 or revaluation.

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*

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. 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 using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

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>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Licence and development fees	3,525	5,491
Royalties	1,534	956
	<u>5,059</u>	<u>6,447</u>

Turnover by geographical segment:

	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Europe	2,750	845
Rest of World	2,309	5,602
	<u>5,059</u>	<u>6,447</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>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Research and development costs	3,758	3,312
Selling and administration costs	1,521	1,280
	<u>5,279</u>	<u>4,592</u>

4. Interest payable and similar charges

	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Finance leases and hire purchase contracts	49	74

Xaar Technology Limited

Notes to the financial statements (continued)

5. (Loss)/profit on ordinary activities before taxation

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

	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Auditors' remuneration		
- audit	15	13
Depreciation		
- on assets owned	573	574
- on assets held under finance leases	347	381
Staff costs (see note 6)	1,608	1,171
Operating lease rentals in respect of:		
- Hire of plant and machinery	9	10
- Land and buildings	370	352
Loss on disposal of tangible fixed assets	1	11
	=====	=====

No amounts were payable to Arthur Andersen by the company in respect of non-audit services.

Xaar Technology Limited

Notes to the financial statements (continued)

6. Staff costs

Employee costs during the year amounted to:	<i>2001</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>
Wages and salaries	1,373	997
Social security costs	139	100
Other pension costs	96	74
	<u>1,608</u>	<u>1,171</u>

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

	<i>2001</i>	<i>2000</i>
	<i>Number</i>	<i>Number</i>
Research and development	46	33
Sales and marketing	1	3
	<u>47</u>	<u>36</u>

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 2001. The directors of the company did not receive any remuneration during the year in respect of their services to the company (2000: nil).

One director exercised share options in the period (2000: one).

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

The tax charge comprises:

	<i>2001</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>
Foreign tax	<u>213</u>	<u>360</u>

No deferred tax has been provided due to the availability of tax losses carried forward of approximately £2.8m (2000: £2.3m).

Xaar Technology Limited

Notes to the financial statements (continued)

8a. Tangible fixed assets

	<i>Leasehold improvements</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 2001	849	4,004	538	213	5,604
Additions	95	319	128	117	659
Transfers	3	(3)	-	-	-
Disposals	-	(22)	(1)	(70)	(93)
At 31 December 2001	947	4,298	665	260	6,170
Depreciation					
At 1 January 2001	190	2,264	321	109	2,884
Charge for the year	86	691	95	48	920
Disposals	-	(20)	-	(53)	(73)
At 31 December 2001	276	2,935	416	104	3,731
Net book value					
At 31 December 2001	671	1,363	249	156	2,439
At 31 December 2000	659	1,740	217	104	2,720
Leased assets included in the above:					
Net book value					
At 31 December 2001	-	720	67	126	913
At 31 December 2000	-	870	2	93	965

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 2001 and 2000 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**

Amounts falling due within one year:

	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Trade debtors	147	6
Amounts owed by group undertakings	4,465	5,315
VAT	105	18
Prepayments and accrued income	309	162
	<u>5,026</u>	<u>5,501</u>

10. Creditors: amounts falling due within one year

	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Obligations under finance leases and hire purchase contracts	149	480
Trade creditors	551	349
Amounts owed to group undertakings	-	151
Taxation and social security	105	150
Amount due to pension scheme	30	21
Accruals	265	301
	<u>1,100</u>	<u>1,452</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>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Obligations under finance leases and hire purchase contracts, due between 2 to 5 years	<u>232</u>	<u>111</u>

Xaar Technology Limited

Notes to the financial statements (continued)

12. Called-up share capital

	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
<i>Authorised:</i>		
5,132,072 ordinary shares of £1 each	5,132	5,132
	<u>=====</u>	<u>=====</u>
<i>Allotted, called-up and fully paid:</i>		
4,426,322 (2000: 4,346,322) ordinary shares of £1 each	4,426	4,346
	<u>=====</u>	<u>=====</u>

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 2001 a total of 19,000 (2000 – 99,000) options were outstanding.

	<i>At</i> <i>1/1/2001</i>	<i>No. of</i> <i>options</i> <i>exercised</i>	<i>At</i> <i>31/12/01</i>	<i>Option</i> <i>price</i>
Options outstanding	99,000	(80,000)	19,000	£1.50
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

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 2001 were granted as follows:

<i>No. of shares</i> <i>Under option</i>	<i>Date of</i> <i>Grant</i>
7,000	4/7/1995
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>	<i>Total £'000</i>
At 1 January 2001	1,055	1,278	2,333
Retained loss for the financial year	-	(645)	(645)
Exercise of share options	40	-	40
	<hr/>	<hr/>	<hr/>
At 31 December 2001	1,095	633	1,728
	<hr/>	<hr/>	<hr/>

The share premium account is not distributable.

14. Reconciliation of movements in shareholders' funds

	<i>2001 £'000</i>	<i>2000 £'000</i>
(Loss)/profit for the financial year	(645)	850
New shares issued	120	134
	<hr/>	<hr/>
Net (decrease)/addition to shareholders' funds	(525)	984
Opening shareholders' funds	6,679	5,695
	<hr/>	<hr/>
Closing shareholders' funds	6,154	6,679
	<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>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Contracted for but not provided for	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 £9,000 (2000: £10,000).

In addition, the company leases land and buildings. The rental for the year was £370,000 (2000: £352,500).

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

	<i>Property</i>		<i>Fixtures & fittings</i>	
	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>
Operating leases which expire:				
- within 1 year	-	18	3	5
- between 2 and 5 years	-	-	4	5
- after 5 years	375	343	-	-

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 0XR. The consolidated financial statements of the group are available to the public and may be obtained from the above address.