

Xaar Technology Limited

Financial Statements for the year ended 31 December 2000
together with Directors' report and Auditors' report

Registered number: 2469592



Xaar Technology Limited

Directors' report for the year ended 31 December 2000

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 2000.

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 improve in the next year.

Research and development

The majority of the company's employees are involved in research and development and £3.3m (1999 - £3.7m) was spent on research and development in the year.

Results and dividends

Turnover for the year was £6.4m (1999 - £7.0m) and comprises licence and development fees and royalties. The profit for the year after taxation was £850,000 (1999 - £2,225,000). The directors do not recommend the payment of a dividend (1999 - nil).

Directors and their interests

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

G T Wylie (resigned 17/10/2000)

J A Lowe

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

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 2000.

The directors who held office at 31 December 2000 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 2000.

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: -

- o select suitable accounting policies and then apply them consistently;
- o make judgements and estimates that are reasonable and prudent;
- o state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- o 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 50 days (1999 – 69 days).

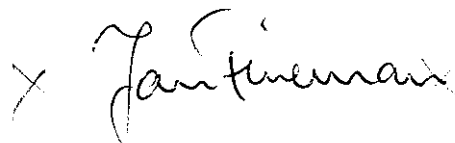
Auditors

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

13 February 2001

A handwritten signature in dark ink, appearing to read 'J C L Fineman', with a large 'X' mark to its left.

Registered no. 2469592

J C L Fineman
Director

Xaar Technology Limited

Auditors' report

To the Shareholders of Xaar Technology Limited

We have audited the financial statements 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 financial statements 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 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 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 2000 and of the profit 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

13 February 2001

Xaar Technology Limited

**Profit and loss account
For the year ended 31 December 2000**

	Notes	2000 £'000	1999 £'000
Turnover	2	6,447	6,969
Cost of sales		(571)	(97)
Gross profit		5,876	6,872
Operating expenses (net)	3	(4,592)	(4,256)
Operating profit		1,284	2,616
Interest payable and similar charges	4	(74)	(53)
Profit on ordinary activities before taxation	5	1,210	2,563
Tax on profit on ordinary activities	7	(360)	(338)
Retained profit for the financial year		850	2,225

There were no recognised gains and losses except for the profit 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 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	8a	2,720	3,328
Investments	8b	20	20
		<u>2,740</u>	<u>3,348</u>
Current assets			
Debtors	9	5,501	6,952
Cash at bank and in hand		1	190
		<u>5,502</u>	<u>7,142</u>
Creditors: amounts falling due within one year	10	(1,452)	(4,380)
Net current assets		<u>4,050</u>	<u>2,762</u>
Total assets less current liabilities		6,790	6,110
Creditors: amounts falling due after more than one year	11	(111)	(415)
Net assets		<u><u>6,679</u></u>	<u><u>5,695</u></u>
Capital and reserves			
Called-up share capital	12	4,346	4,257
Share premium account	13	1,055	1,010
Profit and loss account	13	1,278	428
Shareholders' funds - all equity	14	<u><u>6,679</u></u>	<u><u>5,695</u></u>

Signed on behalf of the Board

J C L Fineman
Director
13 February 2001



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.

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>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Licence and development fees	5,491	5,852
Royalties	956	1,117
	<u>6,447</u>	<u>6,969</u>

Turnover by geographical segment:

	<i>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Europe	845	2,172
Rest of World	5,602	4,797
	<u>6,447</u>	<u>6,969</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>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Research and development costs	3,312	3,689
Selling and administration costs	1,280	664
	<u>4,592</u>	<u>4,353</u>

4. Interest payable and similar charges

	<i>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Finance leases and hire purchase contracts	<u>74</u>	<u>53</u>

Xaar Technology Limited

Notes to the financial statements (continued)

5. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging:

	<i>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Auditors' remuneration		
- audit	13	10
Depreciation		
- on assets owned	574	671
- on assets held under finance leases	381	274
Staff costs (see note 6)	1,171	1,148
Operating lease rentals in respect of:		
- Hire of plant and machinery	10	10
- Land and buildings	352	331
Loss on disposal of tangible fixed assets	11	17
	=====	=====

Xaar Technology Limited

Notes to the financial statements (continued)

6. Staff costs

Employee costs during the year amounted to:	<i>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Wages and salaries	997	967
Social security costs	100	100
Other pension costs	74	81
	<u>1,171</u>	<u>1,148</u>

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

	<i>2000</i> <i>Number</i>	<i>1999</i> <i>Number</i>
Research and development	33	34
Sales and marketing	3	3
	<u>36</u>	<u>37</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 2000. The directors of the company did not receive any remuneration during the year in respect of their services to the company (1999: nil).

One director exercised share options in the period (1999: none).

7. Tax on profit on ordinary activities

The tax charge comprises:

	<i>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Foreign tax	360	338
	<u>360</u>	<u>338</u>

No deferred tax has been provided due to the availability of tax losses carried forward of approximately £2.3m (1999: £3.4m).

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 2000	849	3,747	500	236	5,332
Additions	-	260	38	96	394
Disposals	-	(3)	-	(119)	(122)
At 31 December 2000	849	4,004	538	213	5,604
Depreciation					
At 1 January 2000	105	1,563	204	132	2,004
Charge for the year	85	702	117	51	955
Disposals	-	(1)	-	(74)	(75)
At 31 December 2000	190	2,264	321	109	2,884
Net book value					
At 31 December 2000	659	1,740	217	104	2,720
At 31 December 1999	744	2,184	296	104	3,328
Leased assets included in the above:					
Net book value					
At 31 December 2000	-	870	2	93	965
At 31 December 1999	-	1,270	10	72	1,352

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 2000 and 1999 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>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Trade debtors	6	2,730
Amounts owed by group undertakings	5,315	3,753
VAT	18	26
Prepayments and accrued income	162	443
	<u>5,501</u>	<u>6,952</u>

10. Creditors: amounts falling due within one year

	<i>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Obligations under finance leases and hire purchase contracts	480	722
Trade creditors	349	541
Amounts owed to group undertakings	151	2,802
Taxation and social security	150	89
Amount due to pension scheme	21	22
Accruals	301	204
	<u>1,452</u>	<u>4,380</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>2000</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Obligations under finance leases and hire purchase contracts, due between 2 to 5 years	<u>111</u>	<u>415</u>

Xaar Technology Limited

Notes to the financial statements (continued)

12. Called-up share capital

	<i>2000</i> <i>£'000</i>	<i>1999</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>		
4,346,322 (1999: 4,257, 100) ordinary shares of £1 each	4,346 =====	4,257 =====

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 2000 a total of 99,000 (1999 – 188,222) options were outstanding and exercisable on the following terms:

	<i>At</i> <i>1/1/2000</i>	<i>No. of</i> <i>options</i> <i>exercised</i>	<i>At</i> <i>31/12/00</i>	<i>Option</i> <i>price</i>
Options outstanding	188,222 =====	(89,222) =====	99,000 =====	£1.50 =====

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 £'000</i>	<i>Profit and loss Account £'000</i>	<i>Total £'000</i>
At 1 January 2000	1,010	428	1,438
Retained profit for the financial year	-	850	850
Exercise of share options	45	-	45
	-----	-----	-----
At 31 December 2000	1,055	1,278	2,333
	=====	=====	=====

The share premium account is not distributable.

14. Reconciliation of movements in shareholders' funds

	<i>2000 £'000</i>	<i>1999 £'000</i>
Opening shareholders' funds	5,695	3,253
Retained profit for the financial year	850	2,225
New shares issued	134	217
	-----	-----
Closing shareholders' funds	6,679	5,695
	=====	=====

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:

	2000 £'000	1999 £'000
Contracted for but not provided for	-	69
	=====	=====

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 (1999: £10,000).

In addition, the company leases land and buildings. The rental for the year was £352,500 (1999: £331,200).

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

	<i>Property</i>		<i>Fixtures & fittings</i>	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Operating leases which expire:				
- within 1 year	18	-	5	1
	=====	=====	=====	=====
- between 2 and 5 years	-	-	5	9
	=====	=====	=====	=====
- after 5 years	343	343	-	-
	=====	=====	=====	=====

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.