

Xaar Technology Limited

Financial Statements for the year ended 31 December 2005
together with Directors' report and Auditors' report

Registered number: 2469592



Xaar Technology Limited

Directors' report for the year ended 31 December 2005

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 2005.

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 profitability should improve in the next year.

Research and development

The majority of the company's employees are involved in research and development and £1.2m (2004: £1.7m) was spent on research and development in the year.

Results and dividends

Turnover for the year was £2.7m (2004: £3.8m) and comprises licence fees and royalties. The profit for the year after taxation was £1,498,000 (2005: £630,000). The directors are unable to recommend the payment of a dividend (2004: £nil).

Directors and their interests

The directors who served throughout the year were as follows:

N A Berry
I Dinwoodie

Both 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 2005.

The directors who held office at 31 December 2005 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 2005.

Xaar Technology Limited

Directors' report (continued)

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. 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 45 days (2004: 67 days).

Auditors

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

20 September 2006
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 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 20. 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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework 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 other transactions 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 or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cambridge, United Kingdom

22 September 2006

Xaar Technology Limited

Profit and loss account

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Turnover	2	2,697	3,782
Cost of sales		(263)	(205)
Gross profit		2,434	3,577
Other operating expenses (net)	3	(1,854)	(2,866)
Operating profit		580	711
Interest receivable and similar income	4	-	4
Interest payable	5	(6)	(8)
Profit on ordinary activities before taxation	6	574	707
Tax on profit on ordinary activities	8	924	(77)
Retained profit for the financial year	15, 16	1,498	630

There were no recognised gains or losses except for the profit for the current financial year and the preceding financial 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 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Intangible assets	9	6,300	-
Tangible assets	10	807	864
		7,107	864
Current assets			
Debtors	11	23,528	16,449
Cash at bank and in hand		1	-
		23,529	16,449
Creditors: amounts falling due within one year	12	(23,418)	(11,572)
Net current assets		111	4,877
Total assets less current liabilities		7,218	5,741
Creditors: amounts falling due after more than one year	13	(4)	(25)
Net assets		7,214	5,716
Capital and reserves			
Called up share capital	14	4,445	4,445
Share premium account	15	1,105	1,105
Own shares	17	(20)	(20)
Profit and loss account	15	1,684	186
Shareholders' funds – all equity	16	7,214	5,716

Signed on behalf of the Board


N A Berry
Director

20 September 2006

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 United Kingdom accounting standards.

b) *Intangible fixed assets*

Payments in respect of intellectual property rights are capitalised at cost and amortised on a straight-line basis over their estimated useful lives.

c) *Tangible fixed assets*

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

No depreciation is provided on assets in the course of construction. On other assets, 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

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

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 defined contribution 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, all of which arises from continuing activities, 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 substantively 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:

	2005	2004
	£'000	£'000
Development fees	7	-
Licence fees and royalties	2,690	3,782
	2,697	3,782

Turnover by geographical segment:

	2005	2004
	£'000	£'000
Europe and Middle East	1,384	2,677
Asia	1,169	874
Americas	144	231
	2,697	3,782

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)

	2005	2004
	£'000	£'000
Administrative expenses	1,854	2,866

Administrative expenses consist of:

	2005	2004
	£'000	£'000
Research and development	1,175	1,678
Other	679	1,188
	1,854	2,866

4. Interest receivable and similar income

	2005	2004
	£'000	£'000
Bank interest receivable	-	3
Dividends receivable	-	1
	-	4

Xaar Technology Limited

Notes to the financial statements (continued)

5. Interest payable and similar charges

	2005	2004
	£'000	£'000
Bank interest payable	1	-
Finance leases and hire purchase contracts	5	8
	6	8

6. Profit on ordinary activities before taxation

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

	2005	2004
	£'000	£'000
Depreciation		
-on assets owned	277	319
-on assets held under finance leases	47	71
Auditors' remuneration		
-audit	44	20
-non audit	111	53
Operating lease rentals in respect of:		
-hire of plant and machinery	92	87
-land and buildings	312	376
Staff costs (see note 7)	526	1,133
Research and development expenditure	1,175	1,678

7. Staff costs

Employee costs during the year amounted to:

	2005	2004
	£'000	£'000
Wages and salaries	445	965
Social security costs	58	113
Other pension costs	23	55
	526	1,133

Xaar Technology Limited

Notes to the financial statements (continued)

7. Staff costs (continued)

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

	2005 No.	2004 No.
Research and development	7	15
Sales and marketing	-	1
Administration	-	1
	7	17

The directors did not receive any remuneration during the year in respect of their services to the company (2004: nil).

No directors exercised share options in the year (2004: nil).

8. Tax on profit on ordinary activities

The tax (credit)/charge comprises:

	2005 £'000	2004 £'000
Current tax:		
Corporation tax	-	-
Foreign tax	114	77
	114	77
Deferred Tax	(1,038)	-
	(924)	77

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:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	574	707
Tax at 30% thereon	172	212
Effects of:		
Expenses not deductible for tax purposes	(121)	(2)
Capital allowances in (excess)/deficit of depreciation	(62)	98
Utilisation of tax losses	-	(191)
Effect of zero rate band	-	(1)
Group relief surrendered/(claimed) not paid for	11	(1)
Additional deduction for R&D expenditure	-	(92)
Unrelieved foreign taxes	114	54
Current tax charge for year	114	77

Xaar Technology Limited

Notes to the financial statements (continued)

8. Tax on profit on ordinary activities (continued)

Deferred tax assets have been recognised in full, hence there is no unprovided deferred tax (2004: £997,332).

9. Intangible fixed assets

	Intellectual Property £'000
Cost	
At 1 January 2005	-
Additions	6,300
At 31 December 2005	6,300

Amortisation

At 1 January 2005 and 31 December 2005	-
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Carrying amount

At 31 December 2005	6,300
At 31 December 2004	-

The amortisation period for these intellectual property costs is five years on a straight line basis.

10. Tangible fixed assets

	Leasehold improvements £'000	Plant & machinery £'000	Furniture, fittings & equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2005	968	4,444	901	5	-	6,318
Additions	1	55	148	-	65	269
Disposals	-	(26)	(4)	-	-	(30)
At 31 December 2005	969	4,473	1,045	5	65	6,557
Depreciation						
At 1 January 2005	571	4,176	702	5	-	5,454
Charge for the year	95	121	108	-	-	324
Disposals	-	(26)	(2)	-	-	(28)
At 31 December 2005	666	4,271	808	5	-	5,750
Net book value						
At 31 December 2005	303	202	237	-	65	807
At 31 December 2004	397	268	199	-	-	864

Xaar Technology Limited

Notes to the financial statements (continued)

10. Tangible fixed assets (continued)

	Leasehold improve- ments £'000	Plant & machinery £'000	Furniture, fittings & equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
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Leased assets included in the above:

Net book value

At 31 December 2005	-	27	4	-	-	31
At 31 December 2004	-	69	10	-	-	79

11. Debtors

	2005 £'000	2004 £'000
Amounts falling due within one year:		
Trade debtors	1	-
Amounts owed by group undertakings	21,749	15,736
Amounts owed by parent undertaking	141	141
VAT	51	81
Prepayments and accrued income	548	491
	22,490	16,449
Amounts falling due after more than one year:		
Deferred tax asset	1,038	-
	23,528	16,449

The following are the major deferred tax assets recognised by the company during the current reporting period:

	Accelerated tax depreciation £'000	Tax losses £'000	Other temporary difference £'000	Total £'000
At 1 January 2005	-	-	-	-
Credit to income	245	783	10	1,038
At 31 December 2005	245	783	10	1,038

At the balance sheet date, the company has unused tax losses of £2,610k (2004: £2,522k) available for offset against future profits. A deferred tax asset has been recognised in respect of £2,610k (2004: £nil) of such losses.

Xaar Technology Limited

Notes to the financial statements (continued)

12. Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Obligations under finance leases and hire purchase contracts	21	26
Trade creditors	414	486
Amounts owed to parent undertaking	16,210	10,472
Amounts owed to group undertakings	6,300	-
Taxation and social security	120	96
Amount due to pension scheme	32	26
Accruals	321	466
	23,418	11,572

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

	2005 £'000	2004 £'000
Obligations under finance leases and hire purchase contracts due between 2 to 5 years	4	25

14. Called-up share capital

	2005 £'000	2004 £'000
<i>Authorised:</i>		
5,132,072 ordinary shares of £1 each	5,132	5,132
<i>Allotted, called-up and fully paid:</i>		
4,445,322 ordinary shares of £1 each	4,445	4,445

15. Statement of movement on reserves

The movement on reserves for the year is as follows:

	Own shares £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2005	(20)	1,105	186	1,271
Retained profit for the financial year	-	-	1,498	1,498
At 31 December 2005	(20)	1,105	1,684	2,769

The share premium account is not distributable.

Xaar Technology Limited

Notes to the financial statements (continued)

16. Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Profit for the financial year	1,498	630
Net addition to shareholders' funds	1,498	630
Opening shareholders' funds	5,716	5,086
Closing shareholders' funds	7,214	5,716

17. Investment in own shares

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 2005 and 2004 there were 91,250 10p ordinary shares in Xaar plc held in trust by Xaar Trustee Limited at a cost of £20,000. In accordance with UITF 38, this amount was transferred to reserves in 2004. The aggregate market value of these shares at 31 December 2005 was £245,006 (2004: £126,381). 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).

18. Guarantees and other financial commitments

a) Capital commitments

At the end of the year, the company had capital commitments contracted for but not provided of £39,000 (2004: £64,000).

b) Lease commitments

The company has entered into non-cancellable leases in respect of fixtures and fittings and motor vehicles, the payments for which extend over a period of up to 3 years. The total rental for the year was £92,000 (2004: £87,000).

In addition, the company leases land and buildings. The rental for the year was £312,000 (2004: £376,000).

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

	Property		Fixtures & fittings		Motor vehicles	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Operating leases which expire:						
- within 1 year	21	-	11	11	-	4
- between 2 and 5 years	-	-	-	-	32	17
- after 5 years	418	376	-	-	-	-

Xaar Technology Limited

Notes to the financial statements (continued)

19. 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'.

20. 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.