

Company Registration No. 2469592

XAAR TECHNOLOGY LIMITED

Annual Report and Financial Statements

31 December 2010

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REPORT AND FINANCIAL STATEMENTS 2010

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XAAR TECHNOLOGY LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report for the year ended 31 December 2010

RESULTS AND DIVIDENDS

Turnover for the year was £9,858,000 (2009 £7,534,000) and comprises licence fees and royalties, and development fees. The profit for the year after taxation was £4,586,000 (2009 £3,405,000). The directors do not recommend the payment of a dividend for the current year (2009 £nil).

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company continues to be the research, development and commercial exploitation of ink jet printing technology.

The company's key financial and other performance indicators during the year were as follows:

	2010	2009	Change
	£'000	£ 000	%
Turnover	9,858	7,534	31%
Gross margin	97%	93%	4%
Research and development expenditure	1,050	815	29%
Profit after tax	4,586	3,405	35%

Turnover for the year increased by £2,324,000 (31%). This is due primarily to an increase in royalty receipts from Japanese licensees who continue to grow their piezo inkjet businesses, based on Xaar's technology. During 2008 these licensees won a number of new supply contracts, increasing the volume of heads they produce and, consequently, the royalties payable to Xaar; this growth has continued through 2009 and 2010.

Gross margin for the year was improved to 97% (2009 93%) largely due to the increase in licensee revenue which has a higher margin than inter-company recharges.

Research and development expenditure has increased by 29% compared to the prior year. This expenditure is in line with the prior year as a proportion of turnover at 11% in both the current and prior year.

Profit after tax has increased by £1,181,000 (35%) compared to the prior year. The majority of this increase is attributable to the additional revenue gained, as outlined above, with the remainder due to small cost savings gained throughout operating expenditure.

PRINCIPAL RISKS AND UNCERTAINTIES

The company's activities expose it primarily to the financial risks of liquidity risk and credit risk.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing the cash flows generated by its operations.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Licensees report and pay royalties quarterly.

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the company can continue in operational existence for the foreseeable future.

As at 31 December 2010 the company had net assets of £16,538,000 and generated a profit after tax of £4,586,000. Xaar Technology Limited is subject to the overall financing arrangements of the Xaar Plc Group. The directors of the Xaar Group have reviewed the historic trading performance of the business and prepared forecasts which show that the company should have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Therefore the directors believe it is appropriate to prepare the financial statements on a going concern basis.

XAAR TECHNOLOGY LIMITED

DIRECTORS' REPORT

RESEARCH AND DEVELOPMENT

The majority of the company's employees are involved in research and development and £1,050,000 (2009 £815,000) was spent on research and development in the year

MARKET TRENDS AND FUTURE DEVELOPMENTS

As the patents associated with current licensee arrangements mature, we expect royalties from our licensees to stabilise or reduce in the longer term, in contrast to the growth we have seen over the past few years. Research and development projects will continue in order to exploit the opportunities provided by new markets.

Xaar is well positioned to capitalise on the progressive shift from analogue to inkjet technology based printing. Xaar's reputation and position in the inkjet market is building. We have the manufacturing capacity and capability, the technical knowledge and a committed and talented team which is now focused on execution and delivery of growth.

DIRECTORS

The directors who served throughout the year were as follows:

A Taylor (Resigned 31 March 2011)
I N Dinwoodie

Both directors also served as directors of Xaar plc during 2010. Details of their 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 2010. A Bevis was appointed as a director on 31 March 2011.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

XAAR TECHNOLOGY LIMITED

DIRECTORS' REPORT

DIRECTORS' LIABILITIES

The company has granted an indemnity to one or more of its directors against liability in respect of any potential proceedings that may be brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

CHARITABLE CONTRIBUTIONS

The company made charitable contributions to local and national children's charities during the year totalling £2,733 (2009: £594). No political donations were made (2009: £nil).

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 (2009: 26 days).

AUDITOR

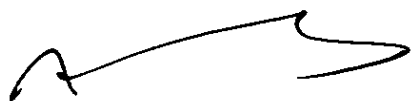
Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



A Bevis

Director

7 September 2011

Science Park
Cambridge
CB4 0XR

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XAAR TECHNOLOGY LIMITED

We have audited the financial statements of Xaar Technology Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XAAR TECHNOLOGY LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

David Halstead

David Halstead FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Cambridge, United Kingdom

7 September 2011

XAAR TECHNOLOGY LIMITED

PROFIT AND LOSS ACCOUNT **Year ended 31 December 2010**

	Note	2010 £'000	2009 £'000
TURNOVER	2	9,858	7,534
Cost of sales		<u>(278)</u>	<u>(509)</u>
Gross profit		9,580	7,025
Other operating expenses (net)	3	<u>(3,184)</u>	<u>(3,197)</u>
OPERATING PROFIT		6,396	3,828
Interest payable and similar charges	4	<u>(202)</u>	<u>(295)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	6 194	3,533
Tax on profit on ordinary activities	7	<u>(1 608)</u>	<u>(128)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	13,14	<u>4,586</u>	<u>3,405</u>

All activities derive from continuing operations

There were no recognised gains or losses other than the profit for the current financial year and preceding financial year. Accordingly no statement of total recognised gains and losses has been prepared

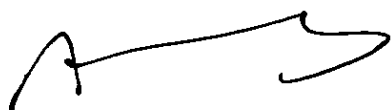
XAAR TECHNOLOGY LIMITED

BALANCE SHEET 31 December 2010

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Intangible assets	8	-	1,260
Tangible assets	9	577	422
Investments	15	-	-
		<u>577</u>	<u>1,682</u>
CURRENT ASSETS			
Debtors			
Amounts falling due within one year	10	63,940	53,332
Amounts falling due after more than one year	10	166	203
		<u>64,106</u>	<u>53,535</u>
CREDITORS, amounts falling due within one year	11	<u>(48,145)</u>	<u>(43,310)</u>
NET CURRENT ASSETS		<u>15,961</u>	<u>10 225</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>16,538</u>	<u>11 907</u>
CAPITAL AND RESERVES			
Called up share capital	12	4 445	4,445
Share premium account	13	1,105	1,105
Share-based payments	13	178	133
Own shares	13	(20)	(20)
Profit and loss account	13	10,830	6,244
SHAREHOLDERS' FUNDS	14	<u>16 538</u>	<u>11 907</u>

The financial statements of Xaar Technology Limited, registered number 2469592, were approved by the Board of Directors and authorised for issue on 7 September 2011

Signed on behalf of the Board of Directors



A Bevis
Director

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

1 ACCOUNTING POLICIES

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

Basis of accounting

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

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the company can continue in operational existence for the foreseeable future.

As at 31 December 2010 the company had net assets of £16,538,000 and generated a profit after tax of £4,586,000. Xaar Technology Limited is subject to the overall financing arrangements of the Xaar Group. The directors of the Xaar Group have reviewed the historic trading performance of the business and prepared forecasts which show that the company should have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Therefore the directors believe it is appropriate to prepare the financial statements on a going concern basis.

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.

The carrying value of intangible assets is reviewed for impairment at the end of the first year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable. The amortisation period for these intellectual property rights is five years on a straight line basis, based on the directors' estimate of their useful economic life.

Tangible fixed assets

All tangible fixed assets are shown at original cost less accumulated depreciation and any recognised impairment loss.

Assets in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets in the same class, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than assets in the course of construction, over their estimated useful lives using the straight-line method, on the following bases:

Leasehold improvements	10 years
Plant and machinery	3-5 years
Furniture, fittings and equipment	3-5 years
Motor vehicles	3 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

Investments

Fixed asset investments are shown at cost less provision for impairment

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.

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.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes but gross of any tax withheld.

Sales of goods are recognised when goods are delivered and title has passed.

Development fees gained from joint development agreements are treated as income over the periods necessary to match them with the related costs.

Royalties are recognised on an accruals basis in accordance with the actual revenue trend in the most recent quarterly statements received from each licensee.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate applicable is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants

Government grants relating to research and development are treated as income over the periods necessary to match them with the related costs.

Government grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

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.

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.

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.

Share-based payments

The company has applied the requirements of FRS 20 (IFRS 2) *Share-based Payment*. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

Xaar plc (the parent company) issues equity-settled share-based payments to certain of the group's employees. These payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

2. SEGMENT INFORMATION

	2010 £'000	2009 £'000
<i>Turnover by class of business</i>		
Development fees	2,956	2,782
Licence fees and royalties	6,902	4,752
	<u>9,858</u>	<u>7,534</u>
<i>Turnover by geographical segment</i>		
EMEA	2,956	2,782
Asia	6,902	4,752
	<u>9,858</u>	<u>7,534</u>

3. OPERATING EXPENSES (NET)

	2010 £'000	2009 £'000
Administrative expenses	<u>3,184</u>	<u>3,197</u>

Included in administration expenses are research and development costs of £1 050,000 (2009 £815,000)

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £'000	2009 £'000
Interest receivable on loans from group undertakings	<u>202</u>	<u>295</u>

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation is after charging (crediting):		
Research and development expenditure (including staff costs)	1,050	815
Government grants towards research and development	(32)	(26)
Depreciation (see note 9)		
- on assets owned	197	182
- on assets held under finance leases	1	1
Amortisation of intangible assets	1,260	1,260
Operating lease rentals (see note 17) in respect of		
- hire of plant and machinery	2	2
- land and buildings	441	440
Staff costs (see note 6)	486	392
	<u> </u>	<u> </u>
 Audit fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	12	12
	<u> </u>	<u> </u>

Non-audit fees in respect of preparation of tax computations of £10,000 (2009: £10,000) were borne by the parent company in the year. These have been recharged to Xaar Technology Limited through the mechanism of the inter-company recharge from the parent company.

6. STAFF COSTS

	2010 £'000	2009 £'000
Employee costs during the year amounted to:		
Wages and salaries	387	349
Social security costs	35	31
Other pension costs	19	12
Share-based payments	45	(89)
	<u> </u>	<u> </u>
	486	303
	<u> </u>	<u> </u>
	No	No
The average monthly number of persons employed by the company was as follows:		
Research and development	7	9
Administration	1	-
	<u> </u>	<u> </u>
	8	9
	<u> </u>	<u> </u>

The directors did not receive any remuneration during the year in respect of their services to the company (2009: nil).

No directors exercised share options in the year (2009: nil).

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2010 £'000	2009 £'000
Current taxation		
UK corporation tax	1,571	106
	<u>1,571</u>	<u>106</u>
Deferred tax		
Origination and reversal of timing differences	37	22
	<u>37</u>	<u>22</u>
	<u>1,608</u>	<u>128</u>

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the UK (28%). The differences are explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	6,194	3,533
Tax at 28% thereon	1,734	989
Effects of		
Expenses not deductible for tax purposes	368	355
Capital allowances in excess of depreciation	(17)	(20)
R&D tax relief	(87)	(96)
Adjustment in respect of prior years	-	106
Effect of group relief	(427)	(1,228)
Current tax charge for year	<u>1,571</u>	<u>106</u>

On 23 March 2011 the Government announced that the main rate of corporation tax would reduce to 26% with effect from 1 April 2011 with subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014. These tax rate reductions had not been substantively enacted at the balance sheet date and therefore have not been reflected in the financial statements. The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

Deferred tax assets have been recognised in full, hence there is no unprovided deferred tax during the current financial year or the preceding year.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The following are the major deferred tax assets recognised by the company during the current and previous reporting periods

	Accelerated tax depreciation £'000	Share options £'000	Other temporary difference £'000	Total £'000
At 1 January 2009	223	-	2	225
Credit (charge) to income	(24)	4	(2)	(22)
At 1 January 2010	199	4	-	203
Credit (charge) to income	(63)	26	-	(37)
At 31 December 2010	136	30	-	166

At the balance sheet date the company has no unprovided deferred tax

8. INTANGIBLE FIXED ASSETS

	Intellectual property £'000
Cost	
At 1 January 2010 and 31 December 2010	6 300
Accumulated depreciation	
At 1 January 2010	5,040
Charge for the year	1 260
At 31 December 2010	6,300
Net book value	
At 31 December 2010	-
At 31 December 2009	1 260

The amortisation period for this intellectual property is five years on a straight line basis, based on the directors' estimate of its useful economic life

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

9. TANGIBLE FIXED ASSETS

	Leasehold improve- ments £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2010	1,022	4,510	1,397	5	65	6,999
Additions in year	7	42	285	-	19	353
Transfers in year	(7)	59	-	-	(52)	-
Disposals	-	(1,043)	(39)	(5)	-	(1,087)
At 31 December 2010	1,022	3,568	1,643	-	32	6,265
Accumulated depreciation						
At 1 January 2010	962	4,354	1,256	5	-	6,577
Charge for the year	14	61	123	-	-	198
Disposals	-	(1,043)	(39)	(5)	-	(1,087)
At 31 December 2010	976	3,372	1,340	-	-	5,688
Net book value						
At 31 December 2010	46	196	303	-	32	577
At 31 December 2009	60	156	141	-	65	422
Leased assets included in the above						
Net book value						
At 31 December 2010	-	1	-	-	-	1
At 31 December 2009	-	2	-	-	-	2

At the end of the year, the company had capital commitments contracted for but not provided of £61,000 (2009 £nil)

10. DEBTORS

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Trade debtors	1,082	713
Amounts owed by group undertakings	61,755	51,644
VAT	44	30
Prepayments and accrued income	1,059	945
	63,940	53,332
Amounts falling due after more than one year		
Deferred tax asset (see note 7)	166	203
	64,106	53,535

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

11. CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Bank overdraft	3	-
Trade creditors	429	266
Amounts owed to parent undertaking	38,850	34,771
Amounts owed to group undertakings	7,575	7,374
Taxation and social security	317	257
Amount due to pension scheme	57	48
Corporation tax	800	-
Accruals	114	594
	<u>48,145</u>	<u>43,310</u>

The pension creditor is that of the Xaar Group UK payroll is transacted through Xaar Technology Limited and recharged across the group through inter-company adjustments

12 CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'000
Allotted, called up and fully paid 4,445,322 ordinary shares of £1 each	<u>4,445</u>	<u>4,445</u>

13 STATEMENT OF MOVEMENT IN RESERVES

	Own shares £'000	Share premium account £'000	Share- based payments £'000	Profit and loss account £'000	Total £'000
At 1 January 2009	(20)	1,105	222	2,839	4,146
Share-based payments	-	-	(89)	-	(89)
Net profit for the financial year	-	-	-	3,405	3,405
At 1 January 2010	(20)	1,105	133	6,244	7,462
Share-based payments	-	-	45	-	45
Net profit for the financial year	-	-	-	4,586	4,586
At 31 December 2010	<u>(20)</u>	<u>1,105</u>	<u>178</u>	<u>10,830</u>	<u>12,093</u>

The share premium account is not distributable

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 2010 and 2009 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 2005 The aggregate market value of these shares at 31 December 2010 was £218,544 (2009 £73,456) There has been no movement in the number of shares held in trust by Xaar Trustee Limited during the year

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010	2009
	£'000	£'000
Profit after taxation for the financial year	4,586	3,405
Share-based payments	45	(89)
	<u>4,631</u>	<u>3,316</u>
Net addition to shareholders' funds	4,631	3,316
Opening shareholders' funds	11,907	8,591
	<u>16,538</u>	<u>11,907</u>
Closing shareholders funds	<u>16,538</u>	<u>11,907</u>

15. INVESTMENTS

	2010	2009
	£	£
Investment in subsidiary	<u>2</u>	<u>2</u>

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)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

16 SHARE-BASED PAYMENTS

Equity-settled share option scheme

The parent company, Xaar plc's share option schemes are open to all employees of the group. Options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, or 42 months in the case of the Share Save Scheme, the options expire. Save as permitted in the share option scheme rules, options lapse on an employee leaving the group.

Details of the share options outstanding during the year are as follows:

	2010		2009	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	192,575	1.32	193,968	1.92
Granted during the period	21,289	2.00	58,607	0.50
Lapsed during the period	(21,090)	1.05	(60,000)	2.48
Exercised during the period	(12,000)	1.16	-	-
Outstanding at the end of the period	180,774	1.44	192,575	1.32
Exercisable at the end of the period	48,000	1.88	58,607	1.74

The weighted average share price at the date of exercise for share options exercised during the period was £2.20. In 2010, options were granted on 22 November 2010. The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 6 years. In 2010, options were granted on 22 November and 21 December. The aggregate of the estimated fair values of the options granted on those dates is £23,720. In 2009, options were granted on 1 April. The aggregate of the estimated fair values of the options granted on those dates is £17,951.

An option granted under the Xaar plc 2004 share option plan will be exercisable over shares with a market value at the date of grant not exceeding a person's annual salary if at the third anniversary of grant the EPS growth of the company since grant has exceeded the growth in the RPI over the same period by at least 12%. To the extent that an option relates to shares with a market value as at the date of grant in excess of a person's annual salary, the option will be exercisable over all of the excess shares if EPS growth over this period has exceeded RPI growth by at least 15%. For EPS performance between these two points, options will be exercisable over the excess shares on a sliding scale.

In addition, options can only be exercised if EPS is at least 5.5p for the financial year preceding the third anniversary of grant. Performance may be retested once only from the date of grant to the fourth or fifth anniversary of grant (at the discretion of the remuneration committee), but the original EPS growth targets will be increased from 12/15% to 16/20% and 20/25% respectively. The 5.5p target will apply for the final financial year in the extended period.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

16. SHARE-BASED PAYMENTS (continued)

The inputs to the Black-Scholes model are as follows

	2010	2009
Weighted average share price	£2.13	£0.56
Weighted average exercise price	£2.02	£0.56
Expected volatility	55%	59%
Expected life	6.5 years	6.5 years
Risk free rate	3.6%	4.8%
Expected dividends	0.57%	1.09%

Expected volatility was determined by calculating the historical volatility of the group's share price over periods ranging from the previous one to three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The company recognised total charge to income of £45,000 (2009: £89,000 credit to income) related to equity-settled share-based payment transactions in the year.

17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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 £2,000 (2009: £2,000).

In addition, the company leases land and buildings. The rental for the year was £441,000 (2009: £440,000).

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

	Land and buildings		Fixtures and fittings	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Within 1 year	11	23	2	-
In the second to fifth years inclusive	34	-	-	2
After 5 years	384	418	-	-
	<u>429</u>	<u>441</u>	<u>2</u>	<u>2</u>

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2010**

18. 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'

19. 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.