

**Company Registration No. 2469592**

**XAAR TECHNOLOGY LIMITED**

**Annual Report and Financial Statements**

**31 December 2011**

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# **XAAR TECHNOLOGY LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2011**

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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 2011

### RESULTS AND DIVIDENDS

Turnover for the year was £9,552,000 (2010 £9,858,000) and comprises royalties and development fees. The profit for the year after taxation was £4,763,000 (2010 £4,586,000). The directors do not recommend the payment of a dividend (2010 £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 has two principal revenue streams, licensee royalties and development fees chargeable to Xaar group companies.

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

	2011	2010	Change
		(Restated)	
	£'000	£'000	%
Turnover	9,552	9,858	(3%)
Gross margin	78%	71%	7%
Research and development expenditure	1,340	1,105	21%
Profit after tax	4,763	4,586	4%
Average number of employees	9	9	0%

Turnover for the year decreased by £306,000 (3%). This is due primarily to the cessation of the amortisation of the intellectual property, which was being recharged at a 15% mark-up (2010 £1,449,000), however other development fees have increased year on year. Royalties have increased year on year by £324,000, however due to fluctuations in foreign exchange rates, in constant currency terms Xaar Technology Limited experienced a decrease in royalty receipts from Japanese licensees.

Gross margin for the year was improved to 78% (2010 71% restated), largely due to the increase in licensee revenue which has a higher margin than inter-company recharges, and the cessation of royalties payable.

Research and development expenditure has increased by 21% compared to the prior year. The increase in spending since the prior year reflects a focus on new product offerings. This expenditure has increased compared to the prior year as a proportion of turnover at 14% (2010 11%).

Profit after tax has increased by £177,000 (4%) compared to the prior year. The majority of this increase is attributable to the increase in the royalty revenue, as outlined above, which has a higher margin than the development fee revenue, with the remainder due to cost savings gained throughout operating expenditure.

Average number of employees remains unchanged.

### 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. Licensees report and pay royalties quarterly, per the licensee contractual agreements in place.

# **XAAR TECHNOLOGY LIMITED**

## **DIRECTORS' REPORT**

### **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 2011 the company had net assets of £21,324,000 and generated a profit after tax of £4,763,000, Xaar Technology Limited is a member of a group of companies (the "Xaar Group") whose ultimate parent company is Xaar plc, and 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. The directors have assessed that Xaar plc has sufficient resources to provide such support. Therefore the directors believe it is appropriate to prepare the financial statements on a going concern basis.

### **RESEARCH AND DEVELOPMENT**

The majority of the company's employees are involved in research and development activities and £1,340,000 (2010 £1,105,000) was spent on research and development in the year, which was recharged to Xaar Group companies.

### **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. Research and development projects will continue in order to exploit the opportunities provided by new markets, for the benefit of Xaar Group.

Xaar is well positioned to capitalise on the progressive shift from analogue to digital inkjet technology based printing.

### **DIRECTORS**

The directors who served during the year were as follows:

A Taylor	(Resigned 31 March 2011)
A Bevis	(Appointed 14 February 2011)
I N Dinwoodie	

The directors also served as directors of Xaar plc during 2011. 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 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

# **XAAR TECHNOLOGY LIMITED**

## **DIRECTORS' REPORT**

fraud and other irregularities

## **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 no charitable contributions during the year (2010 £2,733). No political donations were made (2010 £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 50 days (2010 45 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

24 September 2012

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 2011 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2011 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**

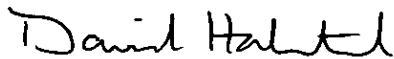
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **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 FCA (Senior Statutory Auditor)**

**For and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor

Cambridge, United Kingdom

25 September 2012

# XAAR TECHNOLOGY LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 December 2011

	Note	2011 £'000	2010 Restated (note 2) £'000
<b>TURNOVER</b>	3	9,552	9,858
Cost of sales		(2,093)	(2,820)
Gross profit		7,459	7,038
Operating expenses		(872)	(642)
<b>OPERATING PROFIT</b>		6,587	6,396
Interest payable and similar charges	4	(207)	(202)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	6,380	6,194
Tax on profit on ordinary activities	7	(1,617)	(1,608)
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	13,14	4,763	4,586

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.

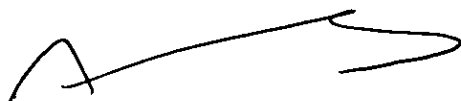
# XAAR TECHNOLOGY LIMITED

## BALANCE SHEET 31 December 2011

	Note	2011 £'000	2010 £'000
<b>FIXED ASSETS</b>			
Intangible assets	8	-	-
Tangible assets	9	1,697	577
Investments	15	-	-
		<u>1,697</u>	<u>577</u>
<b>CURRENT ASSETS</b>			
Debtors			
Amounts falling due within one year	10	75,674	63,940
Amounts falling due after more than one year	10	114	166
Cash at bank and in hand		2	-
		<u>75,790</u>	<u>64,106</u>
<b>CREDITORS, amounts falling due within one year</b>	11	<u>(56,163)</u>	<u>(48,145)</u>
<b>NET CURRENT ASSETS</b>		<u>19,627</u>	<u>15,961</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>21,324</u>	<u>16,538</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	4,445	4,445
Share premium account	13	1,105	1,105
Share-based payments	13	201	178
Own shares	13	(20)	(20)
Profit and loss account	13	15,593	10,830
<b>SHAREHOLDERS' FUNDS</b>	14	<u>21,324</u>	<u>16,538</u>

The financial statements of Xaar Technology Limited, registered number 2469592, were approved by the Board of Directors and authorised for issue on 24 September 2012

Signed on behalf of the Board of Directors



A Bevis  
Director

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2011**

### **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 2011 the company had net assets of £21,324,000 and generated a profit after tax of £4,763,000. Xaar Technology Limited is a member of a group of companies (the "Xaar Group") whose ultimate parent company is Xaar plc, and 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. The directors have assessed that Xaar plc has sufficient resources to provide such support. 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
Software	3-5 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.

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2011**

### **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.

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.

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2011**

### **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 *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 2011

### 2. RESTATEMENT OF PRIOR PERIOD

The financial statements include a prior period restatement in relation to the recognition of cost of sales. In prior periods costs relating to development fees revenue were included in other operating expenses.

The restated financial statements recognise the costs associated to the development fees within cost of sales.

There is no impact to the 2010 balance sheet.

Outlined below are the corrections made for each financial statement line affected.

#### Profit and loss account

	31 December 2010 as reported £'000	31 December 2010 adjustment £'000	31 December 2010 restated £'000
Turnover	9,858	-	9,858
Cost of sales	(278)	(2,542)	(2,820)
Gross profit	9,580	(2,542)	(7,038)
Operating expenses	(3,184)	2,542	(642)
Operating profit	6,396	-	6,396

### 3. SEGMENT INFORMATION

	2011 £'000	2010 £'000
<i>Turnover by class of business</i>		
Development fees	2,326	2,956
Licence fees and royalties	7,226	6,902
	9,552	9,858
<i>Turnover by geographical segment</i>		
EMEA	2,326	2,956
Asia	7,226	6,902
	9,552	9,858

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £'000	2010 £'000
Interest payable on loans from group undertakings	207	202

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2011 £'000	2010 £'000
<b>Profit on ordinary activities before taxation is after charging (crediting).</b>		
Research and development expenditure (including staff costs)	1,340	1,105
Government grants towards research and development	-	(32)
Depreciation (see note 9)		
-on assets owned	309	197
-on assets held under finance leases	1	1
Amortisation of intangible assets	-	1,260
Operating lease rentals (see note 17) in respect of		
- hire of plant and machinery	2	2
- land and buildings	444	441
	<u>444</u>	<u>441</u>
 Audit fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	12	12
	<u>12</u>	<u>12</u>

Non-audit fees in respect of preparation of tax computations of £10,000 (2010 £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

	2011 £'000	2010 £'000
<b>Employee costs during the year amounted to:</b>		
Wages and salaries	440	387
Social security costs	45	35
Other pension costs	20	19
Share-based payments	23	45
	<u>528</u>	<u>486</u>
	<b>No</b>	<b>No</b>
<b>The average monthly number of persons employed by the company was as follows:</b>		
Research and development	8	9
Administration	1	-
	<u>9</u>	<u>9</u>

The directors did not receive any remuneration during the year in respect of their services to the company (2010 nil)

No directors exercised share options in the year (2010 nil)

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2011 £'000	2010 £'000
<b>Current taxation</b>		
UK corporation tax	1,576	1,571
Adjustments in respect of prior years	(11)	-
	<u>1,565</u>	<u>1,571</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	33	37
Adjustments in respect of prior years	19	-
	<u>1,617</u>	<u>1,608</u>

The tax assessed for the year differs from that resulting from applying the blended rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	6,380	6,194
Tax at 26.5% (2010: 28%) thereon	<u>1,691</u>	<u>1,734</u>
Effects of		
Expenses not deductible for tax purposes	1	368
Capital allowances in excess of depreciation	(28)	(17)
R&D tax relief	(88)	(87)
Adjustment in respect of prior years	(11)	-
Effect of group relief	-	(427)
Current tax charge for year	<u>1,565</u>	<u>1,571</u>

In March 2011, the UK Government announced a reduction in the standard rate of UK corporation tax to 26% effective 1 April 2011. This rate reduction was substantively enacted in March 2011.

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012 respectively. The UK government also proposed to further reduce the standard rate of UK corporation tax to 22% effective 1 April 2014, but this change has not been substantively enacted.

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 2011

### 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	Total £'000
At 1 January 2010	199	4	203
(Charge)/credit to income	(63)	26	(37)
At 1 January 2011	136	30	166
(Charge)/credit to income	(54)	2	(52)
At 31 December 2011	82	32	114

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

### 8. INTANGIBLE FIXED ASSETS

	Intellectual property £'000
<b>Cost</b>	
At 1 January 2011 and 31 December 2011	6,300
<b>Accumulated depreciation</b>	
At 1 January 2011 and 31 December 2011	6,300
<b>Net book value</b>	
At 31 December 2011	-
At 31 December 2010	-

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

### 9 TANGIBLE FIXED ASSETS

	Leasehold improve- ments £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Software £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>						
At 1 January 2011	1,022	3,568	1,643	-	32	6,265
Additions in year	299	26	856	249	-	1,430
Transfers in year	-	32	-	-	(32)	-
Disposals	(184)	(2,027)	(642)	-	-	(2,853)
At 31 December 2011	1,137	1,599	1,857	249	-	4,842
<b>Accumulated depreciation</b>						
At 1 January 2011	976	3,372	1,340	-	-	5,688
Charge for the year	22	72	216	-	-	310
Disposals	(184)	(2,027)	(642)	-	-	(2,853)
At 31 December 2011	814	1,417	914	-	-	3,145
<b>Net book value</b>						
At 31 December 2011	323	182	943	249	-	1,697
At 31 December 2010	46	196	303	-	32	577
Leased assets included in the above						
<b>Net book value</b>						
At 31 December 2011	-	-	-	-	-	-
At 31 December 2010	-	1	-	-	-	1

At the end of the year, the company had capital commitments contracted for but not provided of £35,000 (2010 £61,000)

### 10. DEBTORS

	2011 £'000	2010 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	1,146	1,082
Amounts owed by group undertakings	73,754	61,755
VAT	160	44
Prepayments and accrued income	614	1,059
	75,674	63,940
<b>Amounts falling due after more than one year.</b>		
Deferred tax asset (see note 7)	114	166
	75,788	64,106

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

### 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £'000	2010 £'000
Bank overdraft	-	3
Trade creditors	562	429
Amounts owed to parent undertaking	46,420	38,850
Amounts owed to group undertakings	7,782	7,575
Taxation and social security	507	317
Amount due to pension scheme	79	57
Corporation tax	501	800
Accruals	312	114
	<u>56,163</u>	<u>48,145</u>

The amount due to pension scheme relates to 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

	2011 £'000	2010 £'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 2011	(20)	1,105	178	10,830	12,093
Share-based payments	-	-	23	-	23
Net profit for the financial year	-	-	-	4,763	4,763
At 31 December 2011	<u>(20)</u>	<u>1,105</u>	<u>201</u>	<u>15,593</u>	<u>16,879</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 2011 and 2010 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 2011 was £219,411 (2010 £218,544). 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 2011

### 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £'000	2010 £'000
Profit after taxation for the financial year	4,763	4,586
Share-based payments	23	45
Net addition to shareholders' funds	4,786	4,631
Opening shareholders' funds	16,538	11,907
Closing shareholders' funds	21,324	16,538

### 15. INVESTMENTS

	2011 £	2010 £
Investment in subsidiary	2	2

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)

### 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

	2011		2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	180,774	1.44	192,575	1.32
Granted during the period	20,094	2.40	21,289	2.00
Lapsed during the period	(35,000)	1.69	(21,090)	1.05
Exercised during the period	(13,000)	0.84	(12,000)	1.16
Outstanding at the end of the period	152,868	1.54	180,774	1.44
Exercisable at the end of the period	35,000	2.27	48,000	1.88

## XAAR TECHNOLOGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

#### 16. SHARE-BASED PAYMENTS (continued)

The weighted average share price at the date of exercise for share options exercised during the period was £2 20. In 2011, options were granted on 1 June 2011 and 1 November 2011. The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 5 years. The aggregate of the estimated fair values of the options granted on those dates is £27,253. 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.

An option granted under the Xaar plc 2004 share option plan before 2011 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 granted under the Xaar plc 2004 share option plan before 2011 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.

An option granted under the Xaar plc 2004 share option plan from 2011 onwards, 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, Xaar plc has achieved positive adjusted profit before tax as shown in the consolidated income statement in the company's annual report and accounts for any of the three years ending during the vesting period. One third of the shares subject to the option granted rounded to the nearest whole share, will vest based on the performance condition being met per year for each of the three years ending in the vesting period. If the adjusted profit before tax as shown in the consolidated income statement in Xaar plc's annual report and accounts for any relevant year is restated before the option becomes exercisable, the restated figure shall, unless the Remuneration Committee determines otherwise, be applied in determining whether the above targets are met. In addition, for options granted under the Xaar plc 2004 share option plan from 2011, options shall only become exercisable in respect of any shares if the Committee in its absolute discretion determines that the overall financial performance of Xaar plc over the performance period is satisfactory.

The inputs to the Black-Scholes model are as follows

	2011	2010
Weighted average share price	£2 54	£2 13
Weighted average exercise price	£2 40	£2 02
Expected volatility	54%	55%
Expected life	5 7 years	6 5 years
Risk free rate	3 7%	3 6%
Expected dividends	0 25%	0 57%

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. Risk free rate was determined by obtaining the UK Government bond rate for 6 years, based on the expected life of the option.

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

### 16. SHARE-BASED PAYMENTS (continued)

#### *Long Term Incentive Plan*

The company's Long Term Incentive Plan is open to all employees of the group. Vesting of performance share awards made under this scheme is conditional upon the achievement of a performance condition. All awards made under this scheme are exercisable within three to ten years after the date of grant. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the group.

#### **The Earnings Per Share (EPS) condition**

In respect of 100% of each award for those granted, the number of shares that vest will depend on the EPS growth of the company for the three financial years of the company commencing on 1 January of the year of grant.

- 1 None of the EPS Awards will vest if the company's EPS growth does not exceed growth in the Retail Prices Index (RPI) by at least 4% compound p a
- 2 35% of the EPS Awards will vest if the company's EPS growth exceeds growth in the RPI by at least 4% compound p a
- 3 All of the EPS Awards will vest if the company's EPS growth exceeds growth in the RPI by at least 10% compound p a
- 4 EPS Awards will vest on a straight-line basis for EPS growth in excess of growth in the RPI of between 4% and 10% compound p a

Details of performance share awards outstanding during the year are as follows

	2011 Number of shares	2010 Number of shares
Awards outstanding at beginning of period	-	-
Granted during the period	6,219	-
Lapsed during the period	-	-
Outstanding at the end of the period	<u>6,219</u>	<u>-</u>

In 2011, performance share awards were made on 3 May. The aggregate of the estimate fair values of grants made on those dates is £14,431. The performance share awards outstanding at 31 December 2011 had a weighted average remaining contractual life of 9 years. In 2010, no performance share awards were made.

The estimated fair values were calculated using a Black-Scholes model. The inputs to the model for awards granted in the year were as follows

Black-Scholes model	2011
Weighted average share price	£2.341
Weighted average exercise price	£nil
Expected volatility	56%
Expected life	3.25 years
Expected dividend yield	0.26%
Risk free rate	2.25%

The company recognised total charge to income of £23,000 (2010: £45,000 credit) related to equity-settled share-based payment transactions in the year.

## **XAAR TECHNOLOGY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2011**

#### **17 GUARANTEES AND OTHER FINANCIAL COMMITMENTS**

##### **Lease commitments**

The company has entered into non-cancellable leases in respect of fixtures and fittings, the payments for which extend over a period of up to 1 year. The total rental for the year was £2,000 (2010: £2,000).

In addition, the company leases land and buildings. The rental for the year was £441,000 (2010: £441,000).

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

	<b>Land and buildings</b>		<b>Fixtures and fittings</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Within 1 year	16	11	1	2
In the second to fifth years inclusive	25	34	-	-
After 5 years	384	384	-	-
	<u>425</u>	<u>429</u>	<u>1</u>	<u>2</u>

#### **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.