

Xaar Technology Limited

Financial Statements for the year ended 31 December 2009
together with Directors' report and Auditors' report

Registered number 2469592

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Xaar Technology Limited Annual Report and Accounts 2009

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Directors' report for the year ended 31 December 2009

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 2009

Results and dividends

Turnover for the year was £7,534,000 (2008 £6,376,000) and comprises licence fees and royalties, and development fees. The profit for the year after taxation was £3,405,000 (2008 £1,525,000)

No dividends were paid in the year (2008 £nil). The directors do not recommend the payment of a dividend (2008 £nil).

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

	2009 £'000	2008 £'000	Change %
Turnover	7,534	6,376	18%
Gross margin	93%	93%	0%
Research and development expenditure	815	764	7%
Profit before tax	3,533	2,493	42%

Turnover for the year increased by £1,158,000 (18%). 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. We expect this growth to stabilise in the future as a result of the global economic downturn.

Gross margin for the year was in line with the prior year at 93% (2008 93%).

Research and development expenditure has increased by 7% compared to the prior year. It has decreased from 12% of turnover in the prior year to 11% in the current year.

Profit before tax has increased by £1,040,000 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.

Directors' report (continued)

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 cash generation by its operations, applying cash collection targets. The company also manages liquidity risk by funding significant fixed asset purchases by finance leases repayable over a period of three to five years dependent on the individual asset being financed.

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.

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 2009 the Company had net assets of £11,907,000, and generated a profit after tax of £3,405,000. 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.

Research and development

The majority of the company's employees are involved in research and development and £815,000 (2008 £764,000) was spent on research and development in the year.

Market trends and future developments

For 2010, we expect royalties from our licensees to stabilise as a result of the global economic downturn, 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
I Dinwoodie

Both directors are also directors of Xaar plc. 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 2009.

Directors' report (continued)

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.

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 a local children's charity during the year totalling £594 (2008: £nil). No political donations were made (2008: £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 26 days (2008: 35 days).

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Directors' report (continued)

Auditors

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 auditors are 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 auditors are 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 were appointed during the year, they have expressed their willingness to continue in office as auditors and a resolution to reappoint them as auditors will be proposed at the forthcoming Annual General Meeting

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



30/9/10

I N Dinwoodie
Director
30 September 2010

Science Park
Cambridge
CB4 0XR
Registered no 2469592

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 2009 which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. 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 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 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 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 (APB'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 2009 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.

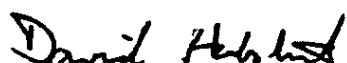
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Independent Auditors' report to the members of Xaar Technology Limited (continued)

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 Auditors
Cambridge, United Kingdom

30 September 2010

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Profit and loss account
For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Turnover	2	7,534	6,376
Cost of sales		(509)	(428)
Gross profit		7,025	5,948
Other operating expenses (net)	3	(3,197)	(3,006)
Operating profit		3,828	2,942
Interest receivable and similar income	4	-	4
Interest payable	5	(295)	(453)
Profit on ordinary activities before taxation	6	3,533	2,493
Tax on profit on ordinary activities	8	(128)	(968)
Retained profit for the financial year	14, 15	3,405	1,525

There were no recognised gains or losses except for the profit for the current financial year and for the preceding financial year and therefore no statement of total recognised gains and losses has been provided

All results for the year derive from continuing activities

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

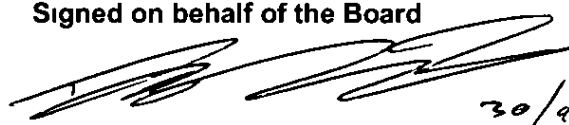
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Balance sheet As at 31 December 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Intangible assets	9	1,260	2,520
Tangible assets	10	422	478
		1,682	2,998
Current assets			
Debtors amounts due within one year	11	53,332	44,874
Debtors amounts due after one year	11	203	225
Cash at bank and in hand		-	1
		53,535	45,100
Creditors: amounts falling due within one year	12	(43,310)	(39,507)
Net current assets		10,225	5,368
Total assets less current liabilities		11,907	8,591
Net assets		11,907	8,591
Capital and reserves			
Called up share capital	13	4,445	4,445
Share premium account	14	1,105	1,105
Share-based payments	14	133	222
Own shares	14, 16	(20)	(20)
Profit and loss account	14	6,244	2,839
Shareholders' funds	15	11,907	8,591

The financial statements of Xaar Technology Limited, registered number 2469592, were approved by the Board of Directors and authorised for issue on 30 September 2010

Signed on behalf of the Board


30/9/10
I N Dinwoodie
Director

The accompanying notes are an integral part of this balance sheet

Notes to the financial statements

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention and 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 2009 the Company had net assets of £11,907,000, and generated a profit after tax of £3,405,000. 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 historical 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 (continued)

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 (continued)

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.

Notes to the financial statements (continued)

2. Segment information

Turnover by class of business

	2009	2008
	£'000	£'000
Development fees	2,782	2,558
Licence fees and royalties	4,752	3,818
	7,534	6,376

Turnover by geographical segment

	2009	2008
	£'000	£'000
Europe and Middle East	2,782	2,559
Asia	4,752	3,825
Americas	-	(8)
	7,534	6,376

3. Operating expenses (net)

	2009	2008
	£'000	£'000
Administrative expenses	3,197	3,006

Included in administration expenses are research and development costs of £815,000 (2008 £764,000)

4 Interest receivable and similar income

	2009	2008
	£'000	£'000
Interest received on tax account	-	4

5 Interest payable and similar charges

	2009	2008
	£'000	£'000
Interest payable on loans from group undertakings	295	453

Notes to the financial statements (continued)

6. Profit on ordinary activities before taxation

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

	2009	2008
	£'000	£'000
Research and development expenditure	815	764
Government grants towards research and development	(26)	(24)
Depreciation		
-on assets owned	182	261
-on assets held under finance leases	1	1
Amortisation of intangible assets	1,260	1,260
Operating lease rentals in respect of		
-hire of plant and machinery	2	35
-land and buildings	440	440
Profit on disposal of tangible fixed assets	-	(2)
Staff costs (see note 7)	392	291

	2009	2008
	£'000	£'000
Audit fees		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	12	12

Non-audit fees in respect of preparation of tax computations of £10,000 (2008 £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.

7 Staff costs

Employee costs during the year amounted to

	2009	2008
	£'000	£'000
Wages and salaries	349	251
Social security costs	31	22
Other pension costs	12	9
Share-based payments	-	9
	392	291

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

	2009	2008
	No.	No.
Research and development	9	8

The directors did not receive any remuneration during the year in respect of their services to the company (2008 nil)

No directors exercised share options in the year (2008 nil)

Notes to the financial statements (continued)

8. Tax on profit on ordinary activities

The tax charge comprises

	2009	2008
	£'000	£'000
Current tax charge – corporation tax	-	820
Adjustment in respect of prior periods	106	-
Deferred tax – origination and reversal of timing differences	22	148
Total deferred tax charge	22	148
Total tax expense for the year	128	968

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

	2009	2008
	£'000	£'000
Profit on ordinary activities before tax	3,533	2,493
Tax at 28% thereon	989	698
Effects of		
Expenses not deductible for tax purposes	355	364
Capital allowances in excess of depreciation	(20)	(21)
Additional 25% deduction for R&D expenditure	(96)	(58)
Utilisation of tax losses	-	(93)
Adjustment to tax charge in respect of prior periods	106	-
Group relief surrendered not paid for	-	(85)
Effect of change in corporation tax rate	-	15
Effect of group relief	(1,228)	-
Current tax charge for year	106	820

UK tax rates are to be reduced by 1% annually starting on 1 April 2011 until 1 April 2014 and this will impact on the future tax charge

Deferred tax assets have been recognised in full, hence there is no un-provided deferred tax during the current financial year or the preceding year The following are the major deferred tax assets recognised by the company during the current and previous reporting periods

	Accelerated tax depreciation £'000	Tax losses £'000	Share options £'000	Other temporary difference £'000	Total £'000
At 1 January 2008	244	93	36	-	373
Credit to income	(21)	(93)	(36)	2	(148)
At 1 January 2009	223	-	-	2	225
Credit/(charge) to income	(24)	-	4	(2)	(22)
At 31 December 2009	199	-	4	-	203

At the balance sheet date, the company has no un-provided deferred tax

Notes to the financial statements (continued)

9. Intangible fixed assets

	Intellectual Property £'000
Cost	
At 1 January 2009 and 31 December 2009	6,300
Depreciation	
At 1 January 2009	3,780
Charge for the year	1,260
At 31 December 2009	5,040
Net book value	
At 31 December 2009	1,260
At 31 December 2008	2,520

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

10. Tangible fixed assets

	Leasehold improve- ments £'000	Plant & machinery £'000	Furniture, fittings & equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2009	1,022	4,467	1,345	5	33	6,872
Additions	-	43	52	-	32	127
At 31 December 2009	1,022	4,510	1,397	5	65	6,999
Depreciation						
At 1 January 2009	947	4,289	1,153	5	-	6,394
Charge for the year	15	65	103	-	-	183
At 31 December 2009	962	4,354	1,256	5	-	6,577
Net book value						
At 31 December 2009	60	156	141	-	65	422
At 31 December 2008	75	178	192	-	33	478

Leased assets included in the above

Net book value

At 31 December 2009	-	2	-	-	-	2
At 31 December 2008	-	3	1	-	-	4

Notes to the financial statements (continued)

11. Debtors

	2009 £'000	2008 £'000
Amounts falling due within one year		
Trade debtors	713	958
Amounts owed by group undertakings	51,644	43,060
Amounts owed by parent undertaking	-	140
VAT	30	29
Prepayments and accrued income	945	687
	53,332	44,874
Amounts falling due after more than one year:		
Deferred tax asset	203	225
	53,535	45,099

12. Creditors. amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	266	363
Amounts owed to parent undertaking	34,771	30,523
Amounts owed to group undertakings	7,374	7,079
Taxation and social security	257	205
Amount due to pension scheme	48	44
Corporation tax creditor	-	574
Accruals	594	719
	43,310	39,507

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

13. Called-up share capital

	2009 £'000	2008 £'000
<i>Allotted, called-up and fully paid</i>		
4,445,322 ordinary shares of £1 each	4,445	4,445

Notes to the financial statements (continued)

14. Statement of movement on reserves

The movement on reserves for the year and the previous year is as follows

	Own shares £'000	Share premium account £'000	Share- based payments £'000	Profit and loss account £'000	Total £'000
At 1 January 2008	(20)	1,105	213	1,314	2,612
Share-based payments	-	-	9	-	9
Net profit for the financial year	-	-	-	1,525	1,525
At 1 January 2009	(20)	1,105	222	2,839	4,146
Share-based payments	-	-	(89)	-	(89)
Retained profit for the financial year	-	-	-	3,405	3,405
At 31 December 2009	(20)	1,105	133	6,244	7,462

The share premium account is not distributable

15 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	3,405	1,525
Share-based payments	(89)	9
Net addition to shareholders' funds	3,316	1,534
Opening shareholders' funds	8,591	7,057
Closing shareholders' funds	11,907	8,591

16. 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 2009 and 2008 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 2009 was £73,456 (2008 £42,659). There has been no movement in the number of shares held in trust by Xaar Trustee Limited during the year.

Notes to the financial statements (continued)

17. Investments

	2009 £	2008 £
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)

18 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

	2009		2008	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	193,968	1.92	180,328	2.02
Granted during the period	58,607	0.50	21,000	1.08
Lapsed during the period	(95,000)	2.57	(7,360)	1.91
Exercised during the period	-	-	-	-
Outstanding at the end of the period	157,575	1.43	193,968	1.92
Exercisable at the end of the period	58,607	0.50	120,000	2.11

The weighted average share price at the date of exercise for share options exercised during the period was £nil, since no options were exercised in the year. The options outstanding at 31 December 2009 had a weighted average remaining contractual life of 4.4 years. In 2009, options were granted on 1 April. The aggregate of the estimated fair values of the options granted on those dates is £8,000. In 2008, options were granted on 21 August. The aggregate of the estimated fair values of the options granted on those dates is £12,000.

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.

Notes to the financial statements (continued)

18. Share-based payments (continued)

Equity-settled share option scheme (continued)

The inputs to the Black-Scholes model are as follows

	2009	2008
Weighted average share price	£0 56	£1 08
Weighted average exercise price	£0 56	£1 08
Expected volatility	59%	50%
Expected life	6 5 years	6 5 years
Risk free rate	4 8%	4 8%
Expected dividends	1.09%	0 6%

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 a total credit to income of £89,000 (2008: expense of £9,000) related to equity-settled share-based payment transactions in the year.

19. Guarantees and other financial commitments

a) 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 (2008: £35,000).

In addition, the company leases land and buildings. The rental for the year was £440,000 (2008: £440,000).

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

	Land & buildings		Fixtures & fittings	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Expiry date				
- within 1 year	23	22	-	1
- in the second to fifth years inclusive	-	-	2	34
- after 5 years	418	418	-	-
	441	440	2	35

The operating leases in respect of fixtures & fittings extend over a period of up to three years.

b) Capital commitments

At the end of the year, the company had £nil capital commitments contracted for but not provided (2008: £1,000).

Notes to the financial statements (continued)

20. 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'

21. 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.