

Company Registration No. 2469592

XAAR TECHNOLOGY LIMITED

Annual Report and Financial Statements

31 December 2016



XAAR TECHNOLOGY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

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XAAR TECHNOLOGY LIMITED

STRATEGIC REPORT

The directors present their strategic report on the affairs of the company, for the year ended 31 December 2016.

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

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 XaarJet Limited.

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

	2016	2015	Change
	£'000	£'000	%
Turnover	14,740	7,983	85%
Gross margin	93%	81%	12%
Research and development expenditure	1,031	1,632	(37%)
Profit after tax	11,903	5,200	129%
Average number of employees	8	16	(50%)

Turnover for the year increased by £6,757,000 (85%) due to one-off royalty audit settlements totalling £6,855,000. Development fees decreased year on year (£0.4 million) due to an overall decrease in expenditure to be recharged, mainly due to the average number of employees having decreased by 50%. Royalty income however rose substantially by £7.1 million.

Gross margin for the year has increased to 93% (2015: 81%), largely due to the decrease in development fees being less than the increase in licensee revenue which has a higher margin.

Research and development expenditure has decreased by 37% compared to the prior year. This expenditure has decreased compared to the prior year as a proportion of turnover at 7% (2015: 20%).

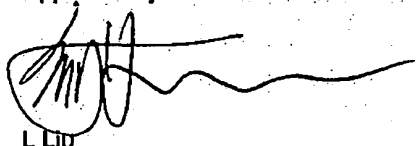
Profit after tax has increased by £6,703,000 129% compared to the prior year.

Net assets as at 31 December 2016 were £27,654,000 (2015: £28,193,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties of the company relate to the economic and market environment that the licensees operate in and the currency exposure on the royalty income due to fluctuations in foreign exchange rates. The company also faces risks and uncertainties relating to the identification and successful development of products in time for the needs of the market and to the specification required.

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



L. Liu
Director
27 September 2017

Science Park
Cambridge
CB4 0XR

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 2016.

Xaar Technology Limited is a private company limited by shares.

RESULTS AND DIVIDENDS

Turnover for the year was £14,740,000 (2015: £7,983,000) and comprises royalties and development fees. The profit for the year after taxation was £11,903,000 (2015: £5,200,000). Dividends of £12,500,000 were paid to Xaar plc in the year (2015: £nil). The directors do not recommend the payment of a final dividend for the current year.

RESEARCH AND DEVELOPMENT

The majority of the company's employees are involved in research and development activities and £1,031,000 (2015: £1,632,000) 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 and existing markets, for the benefit of the Xaar 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 2016 the company had net assets of £27,654,000 and generated a profit after tax of £11,903,000 in 2016, however the company is dependent on the support of the ultimate parent entity, Xaar plc, due to the intercompany financing. Xaar plc has confirmed that it will continue to support the company for the foreseeable future. The directors have assessed that Xaar plc has sufficient resources to provide such support, notwithstanding the risks and uncertainties disclosed in its annual report.

The directors have assessed that Xaar plc has sufficient resources to provide such support, notwithstanding the risks and uncertainties disclosed in its annual report. Therefore the directors believe it is appropriate to prepare the financial statements on a going concern basis.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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, applying cash collection targets and maintaining adequate reserves.

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss. Company policies are aimed at minimising such losses, including to only dealing with creditworthy counterparties. Licensees report and pay royalties quarterly, per the licensee contractual agreements in place.

DIRECTORS

The directors, who served during the year and subsequent to the year end, unless otherwise stated, were as follows:

L Liu (Appointed 2 May 2017)
A Bevis (Resigned 24 March 2017)
D Edwards

The directors also served as directors of Xaar plc during the same periods. Details of their remuneration and share based payment arrangements are included in the Remuneration Report in the Report and Financial Statements of Xaar plc for the year ended 31 December 2016.

XAAR TECHNOLOGY LIMITED

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), including FRS 101 "Reduced Disclosure Framework". 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 judgments and accounting estimates that are reasonable and prudent; 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 (2015: £nil). No political donations were made (2015: £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 nil (2015: nil). This is due to the process of supplier payments being performed by another Group company, resulting in an intercompany balance rather than a third party balance at year end.

XAAR TECHNOLOGY LIMITED

DIRECTORS' REPORT (continued)

AUDITOR

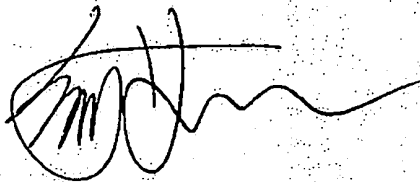
Each of the persons who is a director at the date of approval of this annual report confirms that:

- 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 has 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



L Liu
Director
27 September 2017

Science Park
Cambridge
CB4 0XR

XAAR TECHNOLOGY LIMITED

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 2016 which comprise the profit and loss account, the balance sheet, the statement of changes in equity and the related notes 1 to 17. 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), including FRS 101 "Reduced Disclosure Framework".

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 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, based on the work undertaken in the course of the audit;

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.

XAAR TECHNOLOGY LIMITED

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.



Paul Schofield FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
27 September 2017

XAAR TECHNOLOGY LIMITED**PROFIT AND LOSS ACCOUNT**
Year ended 31 December 2016

	Note	2016 £'000	2015 £'000
TURNOVER	3	14,740	7,983
Cost of sales		(1,101)	(1,550)
Gross profit		13,639	6,433
Research and development expenditure credit		85	91
Administrative expenses		(168)	(698)
OPERATING PROFIT, BEING PROFIT BEFORE TAXATION	4	13,556	5,826
Tax on profit	6	(1,653)	(626)
PROFIT FOR THE FINANCIAL YEAR		<u>11,903</u>	<u>5,200</u>

All activities derive from continuing operations.

There were no other comprehensive income or expenses other than the profit for the current financial year and preceding financial year. Accordingly no Statement of total comprehensive income has been prepared.

XAAR TECHNOLOGY LIMITED

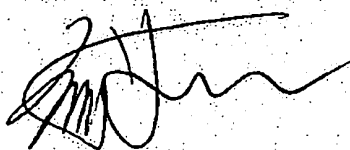
BALANCE SHEET

As at 31 December 2016

	Note	2016 £'000	2015 £'000
FIXED ASSETS			
Intangible assets	8	-	-
Tangible assets	9	25	76
Investments	10	-	-
		<u>25</u>	<u>76</u>
CURRENT ASSETS			
Debtors:			
Amounts falling due within one year	11	94,712	102,743
Amounts falling due after more than one year	11	149	219
Cash at bank and in hand		<u>3,977</u>	<u>1,321</u>
		98,838	104,283
CREDITORS: amounts falling due within one year	12	<u>(71,209)</u>	<u>(76,166)</u>
NET CURRENT ASSETS		<u>27,629</u>	<u>28,117</u>
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		<u>27,654</u>	<u>28,193</u>
CAPITAL AND RESERVES			
Called up share capital	13	4,445	4,445
Share premium account		1,105	1,105
Capital contribution reserve		428	371
Reserve for own shares	14	(20)	(20)
Profit and loss account		<u>21,696</u>	<u>22,292</u>
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		<u>27,654</u>	<u>28,193</u>

The financial statements of Xaar Technology Limited, registered number 2469592, were approved by the Board of Directors and authorised for issue on 27 September 2017.

Signed on behalf of the Board of Directors



L Liu
Director

XAAR TECHNOLOGY LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Capital contribution reserve £'000	Reserve for own shares (note 14) £'000	Profit and loss account £'000	Total £'000
At 1 January 2015	4,445	1,105	309	(20)	17,081	22,920
Profit for the financial year	-	-	-	-	5,200	5,200
Total comprehensive income for the year	-	-	-	-	5,200	5,200
Credit to equity for share-based payments	-	-	62	-	-	62
Tax on share-based payments	-	-	-	-	11	11
At 1 January 2016	4,445	1,105	371	(20)	22,292	28,193
Profit for the financial year	-	-	-	-	11,903	11,903
Total comprehensive income for the year	-	-	-	-	11,903	11,903
Credit to equity for share-based payments	-	-	57	-	-	57
Tax on share-based payments	-	-	-	-	1	1
Dividend paid to ordinary shareholders (note 7)	-	-	-	-	(12,500)	(12,500)
At 31 December 2016	4,445	1,105	428	(20)	21,696	27,654

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

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 have been prepared under the historical cost convention and in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, disclosure of remuneration of key management personnel and related party transactions.

Where relevant, equivalent disclosures are given in the consolidated financial statements of Xaar plc. The group accounts of Xaar plc are available to the public and can be obtained as set out in note 17.

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 2016 the company had net assets of £27,654,000 and generated a profit after tax of £11,903,000 in 2016. 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, notwithstanding the risks and uncertainties disclosed in its annual report. Therefore the directors believe it is appropriate to prepare the financial statements on a going concern basis.

Foreign currency

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at 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.

Turnover

Turnover 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 turnover trend in the most recent quarterly statements received from each licensee.

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.

In accordance with IAS 38 'Intangible assets' where a project has entered the development phase and is sufficiently self-contained that the expected future economic benefits can be traced directly to the assets developed within the project, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably, the development costs related to the project will be capitalised as an intangible asset. Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

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.

Leases

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.

Interest income

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.

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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

To the extent that the company receives a tax deduction relating to share-based payment transactions, deferred tax is provided at the appropriate tax rate on the difference in value between the market price of the underlying equity as at the date of the financial statements and the exercise price of the outstanding share options. As a result, the deferred tax impact of share options will not be derived directly from the expense reported in the profit and loss account.

Deferred tax assets and liabilities are measured on an undiscounted basis.

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset with the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

All financial assets of the company are classified as 'loans and receivables'.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

The financial liabilities of the company are classified as other financial liabilities. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

Intangible fixed assets

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

The amortisation period for software is three years on a straight line basis and 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.

Depreciation is charged so as to write off the cost 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, or where shorter, over the term of the relevant lease
Plant and machinery	3-5 years
Furniture, fittings and equipment	3-5 years

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.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments

Fixed asset investments are shown at cost less provision for impairment.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

Share-based payments

The company has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

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.

2. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS

There were no critical accounting judgements or assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3. SEGMENT INFORMATION

	2016 £'000	2015 £'000
<i>Turnover by class of business:</i>		
Development fees	1,425	1,782
Royalties	13,315	6,201
	<u>14,740</u>	<u>7,983</u>
<i>Turnover by geographical segment:</i>		
EMEA	1,425	1,782
Asia	13,315	6,201
	<u>14,740</u>	<u>7,983</u>

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4. PROFIT BEFORE TAXATION

	2016 £'000	2015 £'000
Profit before taxation is after charging:		
Research and development expenditure (including staff costs)	1,031	1,632
Depreciation (see note 9)		
- on assets owned	51	96
Amortisation (see note 8)		
- on assets owned	-	21
Operating lease rentals (see note 16) in respect of:		
- fixture and fittings	2	2
- land and buildings	638	647
	<u>638</u>	<u>647</u>
Auditor's remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	12	12
	<u>12</u>	<u>12</u>

No non-audit fees were payable to the company's auditor during the current or previous year.

5. STAFF COSTS

	2016 £'000	2015 £'000
Employee costs during the year amounted to:		
Wages and salaries	402	828
Social security costs	43	83
Other pension costs	21	47
Share-based payments	57	62
	<u>523</u>	<u>1,020</u>
	No	No
The average monthly number of persons employed by the company was as follows:		
Research and development	7	15
Administration	1	1
	<u>8</u>	<u>16</u>

The directors did not receive any fees or emoluments from the company during the year directly attributable to their position within the company (2015: £nil). All directors' fees or emoluments were paid by Xaar plc and the amount attributable to qualifying services by the directors to the company cannot be reliably estimated.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2016

6. TAX ON PROFIT

	2016 £'000	2015 £'000
Current taxation		
UK corporation tax	1,522	544
Adjustments in respect of prior years	73	47
	<u>1,595</u>	<u>591</u>
Deferred tax		
Origination and reversal	57	26
Adjustments in respect of prior years	1	9
	<u>1,653</u>	<u>626</u>

The tax assessed for the year differs from that resulting from applying the blended rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

	2016 £'000	2015 £'000
Profit before tax	<u>13,556</u>	<u>5,826</u>
Tax at 20.00% (2015: 20.25%) thereon	2,711	1,180
Effects of:		
Expenses not deductible for tax purposes	30	6
Adjustment in respect of prior years	73	56
Effect of change in UK Corporation tax charge	15	11
Group relief	(61)	(178)
Patent box deduction	(1,115)	(449)
Tax charge for year	<u>1,653</u>	<u>626</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 20% with effect from 1 April 2015, 19% effective from 1 April 2017 and 17% effective from 1 April 2020. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind.

Deferred tax assets have been recognised in full, hence there is no unprovided 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.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

6. TAX ON PROFIT (continued)

	Accelerated tax depreciation £'000	Share options £'000	Other temporary differences £'000	Total £'000
At 1 January 2016	159	39	21	219
Charge to income	(41)	(12)	(5)	(58)
Charge to equity	-	(12)	-	(12)
At 31 December 2016	118	15	16	149

At the balance sheet date, the company has no unprovided deferred tax. Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £'000	2015 £'000
Deferred tax assets	149	219

7. DIVIDENDS

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the financial year:		
Interim dividend for the year ended 31 December 2016 of 281.19p (2015: nil p) per share	12,500	-

8. INTANGIBLE FIXED ASSETS

	Intellectual property £'000	Software £'000	Total £'000
Cost			
At 1 January 2016 and 31 December 2016	6,300	591	6,891
Accumulated depreciation			
At 1 January 2016 and 31 December 2016	6,300	591	6,891
Net book value			
At 31 December 2016	-	-	-
At 31 December 2015	-	-	-

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

9. TANGIBLE FIXED ASSETS

	Leasehold improve- ments £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2016 and 31 December 2016	1,127	814	1,291	3,232
Accumulated depreciation				
At 1 January 2016	1,059	812	1,285	3,156
Charge for the year	43	2	6	51
At 31 December 2016	1,102	814	1,291	3,207
Net book value				
At 31 December 2016	25	-	-	25
At 31 December 2015	68	2	6	76

10. INVESTMENTS

	2016 £	2015 £
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). The registered office address for Xaar Trustee Limited is Science Park, Cambridge CB4 0XR.

11. DEBTORS

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	93,082	101,220
Corporation tax	68	165
Accrued income	1,562	1,358
	94,712	102,743
Amounts falling due after more than one year:		
Deferred tax asset (see note 6)	149	219
	94,861	102,962

Amounts owed by group undertakings are trading balances under normal commercial terms and interest is not charged.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£'000	£'000
Amounts owed to parent undertaking	70,260	74,984
Amounts owed to group undertakings	-	172
Taxation and social security	802	846
Amount due to pension scheme	147	164
	<u>71,209</u>	<u>76,166</u>

Amounts owed to parent undertaking are trading balances under normal commercial terms and interest is not charged.

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.

13. CALLED UP SHARE CAPITAL

	2016	2015
	£'000	£'000
Authorised, allotted, called up and fully paid		
4,445,322 ordinary shares of £1 each	<u>4,445</u>	<u>4,445</u>

14. RESERVE FOR OWN SHARES

	£'000
At 1 January 2016 and 31 December 2016	<u>(20)</u>

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 2016 and 2015 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 2016 was £365,000 (2015: £383,250). 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 2016**

15. 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.

The weighted average share price at the date of exercise for share options exercised during the period was £4.30 (2015: £4.66). In 2016, options were granted on 14 April and 1 November 2016. The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2 years, and a range of exercise prices between 0 pence and 417 pence. In 2015, options were granted on 1 November 2015. The options outstanding at 31 December 2015 had a weighted average remaining contractual life of 4 years, and a range of exercise prices between 0 pence and 616 pence.

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 Earnings Per Share (EPS) growth of the company since grant has exceeded the growth in the Retail Prices Index (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.

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 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 Xaar 2007 Share Save scheme provides an opportunity to all UK employees to save a set monthly amount (currently up to £250 pre 2014, up to £500 from 2014) over three years towards the exercise of a discounted share option, which is granted at the start of the three years.

The Xaar Share Incentive Plan provides an opportunity for all UK employees to buy shares from their pre-tax remuneration up to the limit permitted by the relevant tax legislation (£1,500 per year for awards made in 2013 and 2014, £1,800 for awards in 2016) and are awarded additional shares for free on a matching basis; the Company currently operates the plan on the basis of a 1:1 match but may award matching shares up to the maximum ratio permitted by the relevant tax legislation (currently a 2:1 ratio).

Options and awards under the Xaar 2007 Sharesave and Xaar Share Incentive Plan plans are not subject to performance conditions.

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, or five years in the case of the Share Incentive Plan, (being the contractual lives), the options expire. Save as permitted in the share option scheme rules, options lapse on an employee leaving the Group.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2016

15. SHARE-BASED PAYMENTS (continued)

Long Term Incentive Plan

The company's Long Term Incentive Plan is open to all employees of the company. As at 31 December 2016 all unvested LTIP share awards granted before 2016 are subject to the achievement of EPS performance conditions, 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, as follows:

- (1) None of the 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 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 Awards will vest if the Company's EPS growth exceeds growth in the RPI by at least 10% compound p.a.
- (4) 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.

LTIP share awards granted in 2016 are subject to the achievement of different performance conditions depending on the level of the employee, the number of shares that vest will depend on for the three financial years of the Company commencing on 1 January of the year of grant, and are subject to one, two or three of the conditions as set out below:

- (1) Absolute cumulative EPS performance over the period, whereby 25% of the Awards will vest if the threshold target is achieved, below threshold 0% will vest and up to a maximum of 100% if the maximum EPS target or higher is achieved.
- (2) Total Shareholder Return (TSR) relative to FTSE TechMARK All Share Index, whereby 25% of the Awards will vest if the median rank in the comparator group is achieved, below median 0% will vest and up to a maximum of 100% if the upper quartile or higher is achieved.
- (3) Achievement of positive adjusted profit before tax as shown in the consolidated income statement in the Xaar plc group Annual Report and financial statements 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 Financial Statements 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, 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. All awards that will vest will be calculated on a straight-line basis.

All awards made under this scheme are nil priced and 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.15.

Key individuals are invited to participate in a bonus matching scheme where matching LTIP share awards are granted when the employee invests their bonus in Xaar shares and retains ownership of these shares for the duration of the LTIP share award vesting period. The matching share award is a 1:1 match on the pre-tax value of the bonus used to acquire bonus investment shares. Matching LTIP share awards are subject to the same performance criteria as all other LTIP awards.

The weighted average share price at the date of exercise for LTIP awards exercised during the period was £4.31 (2015: £4.91). In 2016, performance share awards were made on 1 April. The performance share awards outstanding at 31 December 2016 had a weighted average remaining contractual life of 8 years. In 2015, performance share awards were made on 2 April. The performance share awards outstanding at 31 December 2015 had a weighted average remaining contractual life of 8 years.

The company recognised total charge to income of £57,000 (2015: £62,000) related to equity-settled share-based payment transactions in the year.

XAAR TECHNOLOGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

16. OPERATING LEASE ARRANGEMENTS

The outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due are as follows:

	Land and buildings		Fixtures and fittings	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Within 1 year	625	628	1	1
In the second to fifth years inclusive	467	1,089	-	-
	<u>1,092</u>	<u>1,717</u>	<u>1</u>	<u>1</u>

17. PARENT COMPANY AND CONTROLLING PARTY

Xaar Technology Limited is incorporated and domiciled in England and Wales. The registered office address is Science Park, Cambridge CB4 0XR.

The company was a wholly owned subsidiary undertaking of Xaar plc, a company incorporated in England and Wales, registered number 3320972. 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 registered office 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.