

**Company Registration No. 2469592**

**XAAR TECHNOLOGY LIMITED**

**Annual Report and Financial Statements**

**31 December 2018**

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# **XAAR TECHNOLOGY LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2018**

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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 2018.

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 is to hold the group intellectual property and to support the development and commercial exploitation of ink jet printing technology for the group. The company has two principal revenue streams which include licensee royalties and group service charges.

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

	2018	2017	Change
	£'000	£'000	%
Turnover	11,106	17,306	(36%)
Gross margin	93%	94%	(1%)
Research and development expenditure	-	374	(100%)
Profit after tax	9,562	15,938	(40%)

Turnover for the year decreased by £6,200,000 (36%). This was mainly due to a reduction of royalty audit settlements received in the current year and no development fee income in the current year.

Gross margin for the year remains fairly consistent at 93% for the current year (2017: 94%).

There is no research and development expenditure this year in Xaar Technology Limited following the reorganisation of the company and Group.

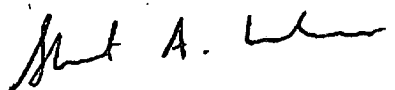
Profit after tax has decreased by £6,376,000 (40%) compared to the prior year. This is mainly due to reduction of license royalties revenue received in the current year.

Net assets as at 31 December 2018 were £53,236,000 (2017: £43,650,000).

### 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



S Kenkare  
Director  
11 December 2019  
Science Park  
Cambridge  
CB4 0XR

## **XAAR TECHNOLOGY LIMITED**

### **DIRECTORS' REPORT**

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

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 2018.

Xaar Technology Limited is a private company limited by shares.

### **RESULTS AND DIVIDENDS**

Turnover for the year was £11,106,000 (2017: £17,306,000) and mainly comprises of royalty fees. The profit for the year after taxation was £9,562,000 (2017: £15,938,000). No dividends were paid to Xaar plc in the year (2017: £nil). The directors do not recommend the payment of a final dividend for the current year.

### **MARKET TRENDS AND FUTURE DEVELOPMENTS**

As the patents associated with current licensee arrangements mature, we expect royalties from our licensees to stabilise or reduce in the longer term.

### **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.

The company made a profit of £9,562,000 for the year ended 31 December 2018 and has a strong financial position with net assets of £53,236,000 as at 31 December 2018. The directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

### **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 counterparty 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:

S Kenkare	(Appointed 15 November 2018)
L Liu	(Resigned 14 November 2018)
D Edwards	(Resigned 10 October 2019)
R Mills	(Appointed 11 October 2019)

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 Directors' Remuneration Report in the Annual Report and Financial Statements of Xaar plc for the year ended 31 December 2018.

## **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.

Xaar plc, the ultimate parent company has granted an indemnity to one of more of the directors of Xaar Technology Limited 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 AND POLITICAL DONATIONS**

The company made no charitable contributions or political donations during both the current and prior years.

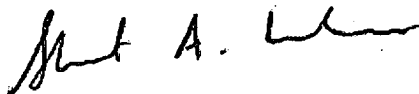
#### **AUDITOR**

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.

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



S Kenkare  
Director  
11 December 2019  
Science Park  
Cambridge  
CB4 0XR

## **XAAR TECHNOLOGY LIMITED**

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

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Xaar Technology Limited ('the company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

##### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## **XAAR TECHNOLOGY LIMITED**

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

#### **Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Report on other legal and regulatory requirements**

#### **Opinions on other matters 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 or the directors' report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

#### **Use of our report**

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.



Paul Schofield FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom  
11 December 2019

**XAAR TECHNOLOGY LIMITED****PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 2018**

	<b>Note</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>TURNOVER</b>	<b>3</b>	<b>11,106</b>	<b>17,306</b>
Cost of sales		(722)	(1,008)
Gross profit		10,384	16,298
Administrative expenses		(667)	(378)
<b>OPERATING PROFIT</b>		<b>9,717</b>	<b>15,920</b>
Interest receivable and similar income	<b>5</b>	<b>1</b>	<b>6</b>
<b>PROFIT BEFORE TAXATION</b>	<b>4</b>	<b>9,718</b>	<b>15,926</b>
Tax on profit	<b>7</b>	(156)	12
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>9,562</b>	<b>15,938</b>

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**

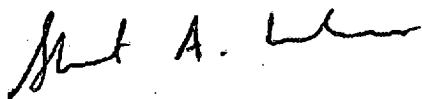
**BALANCE SHEET**

**As at 31 December 2018**

	Note	2018 £'000	2017 £'000
<b>FIXED ASSETS</b>			
Intangible assets	8	-	-
Tangible assets	9	-	11
Investments	10	-	-
Deferred tax assets	13	87	131
		<u>87</u>	<u>142</u>
<b>CURRENT ASSETS</b>			
Debtors	11	89,351	101,200
Cash at bank and in hand		25	10,289
		<u>89,376</u>	<u>111,489</u>
<b>CREDITORS: amounts falling due within one year</b>			
	12	(36,227)	(67,981)
<b>NET CURRENT ASSETS</b>		<u>53,149</u>	<u>43,508</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS</b>		<u>53,236</u>	<u>43,650</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	4,445	4,445
Share premium account		1,105	1,105
Capital contribution reserve		512	487
Reserve for own shares	15	(20)	(20)
Profit and loss account		47,194	37,633
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS</b>		<u>53,236</u>	<u>43,650</u>

The financial statements of Xaar Technology Limited, registered number 2469592, were approved by the Board of Directors and authorised for issue on 11 December 2019.

Signed on behalf of the Board of Directors



S Kenkare  
Director

**XAAR TECHNOLOGY LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2018**

	Note	Share capital £'000	Share premium account £'000	Capital contribution reserve £'000	Reserve for own shares (note 15) £'000	Profit and loss account £'000	Total £'000
At 1 January 2017		4,445	1,105	428	(20)	21,696	27,654
Profit for the financial year		-	-	-	-	15,938	15,938
Total comprehensive income for the year		-	-	-	-	15,938	15,938
Credit to equity for share-based payments	16	-	-	59	-	-	59
Tax on share-based payments		-	-	-	-	(1)	(1)
At 1 January 2018		4,445	1,105	487	(20)	37,633	43,650
Profit for the financial year		-	-	-	-	9,562	9,562
Total comprehensive income for the year		-	-	-	-	9,562	9,562
Credit to equity for share-based payments	16	-	-	25	-	-	25
Tax on share-based payments	13	-	-	-	-	(1)	(1)
<b>At 31 December 2018</b>		<b>4,445</b>	<b>1,105</b>	<b>512</b>	<b>(20)</b>	<b>47,194</b>	<b>53,236</b>

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

### **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 company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared 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 (IFRS 9), capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, disclosure in respect of revenue from contracts with customers (IFRS 15), 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 18.

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.

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

#### **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.

The company made a profit of £9,562,000 for the year ended 31 December 2018 and has a strong financial position with net assets of £53,236,000 as at 31 December 2018. The directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

#### **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**

Revenue is measured based on the consideration to which the company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer.

Revenue from goods and services is recognised in accordance with IFRS 15 when control has been transferred to the customer. For sale of goods and services revenue is recognised at a point in time, unless specific conditions have been satisfied allowing revenue to be recognised over a period of time.

The company has applied the accounting standard IFRS 15 for the period commencing 1 January 2018 using the cumulative effect method. There is no material impact to the company from the adoption of IFRS 15 and therefore there are no transitional adjustments and prior periods have not been restated.

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.

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2018**

### **1. ACCOUNTING POLICIES (continued)**

#### **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.

#### **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.

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

### **1. ACCOUNTING POLICIES (continued)**

#### **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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

In the current year, the company has applied IFRS 9 Financial Instruments which is effective for the period commencing 1 January 2018. IFRS 9 replaces the existing standard IAS 39 for Financial Instruments. There is no material impact to the company from the adoption of IFRS 9 and therefore there are no transitional adjustments and prior periods have not been restated.

#### **Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### **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 the 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.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

### **1. ACCOUNTING POLICIES (continued)**

#### **Financial instruments (continued)**

##### **Financial liabilities**

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the company, are measured in accordance with the specific accounting policies set out below.

Financial liabilities are classified at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included within 'other gains and losses' in profit or loss.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

##### **Derecognition of financial liabilities**

The company derecognises financial liabilities when, and only when, the Group'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.

##### **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.

Following a comprehensive review of property, plant and equipment, the estimated useful lives of a number of assets have been extended. Therefore changes to the depreciation charged so as to write off the cost or valuation of assets, less their residual values, other than assets in the course of construction, over their estimated useful lives, using the straight line method, is now on the following bases:

Leasehold improvements	Up to 20 years
Plant and machinery	Three to 20 years
Furniture, fittings and equipment	Three to 20 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.

# **XAAR TECHNOLOGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

### **1. ACCOUNTING POLICIES (continued)**

#### **Impairment of tangible and intangible assets excluding goodwill (continued)**

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.

#### **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.

The fair value of options issued under the Group's Long Term Incentive Plan is measured using a stochastic (Monte Carlo binomial) model for grants made with market based vesting conditions since 2007. The fair value of all other equity settled share-based payments is measured using the Black-Scholes pricing model. The expected life used in these models 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 key 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.

The critical accounting judgement relates to revenue recognition under IFRS 15. Revenue is recognised at the fair value of the consideration received or receivable. The Seiko Instruments Inc. (SII) agreement includes two separate licences one of which was provided to SII in 2017 and the other was provided to SII in 2018. Given the separate nature of these two licences and the timing of their provision, these have been unbundled and revenue recognised based on the fair value of their expected cash flows.

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

### 3. SEGMENT INFORMATION

	2018 £'000	2017 (restated) £'000
<i>Turnover by class of business:</i>		
Printheads	11,106	17,306
<i>Turnover by geographical segment:</i>		
EMEA	8	922
Asia	11,098	16,384
	11,106	17,306

#### Changes to reportable segments

During the year the company has changed the reportable segments following a review of the organisational structure. As a result of these changes, activities are now reported under Printheads.

	2017 as reported £'000	Adjustment £'000	2017 restated £'000
Development fees	922	(922)	-
Royalties	16,384	(16,384)	-
Printheads	-	17,306	17,306
<b>Total</b>	<b>17,306</b>	<b>-</b>	<b>17,306</b>

### 4. PROFIT BEFORE TAXATION

	2018 £'000	2017 £'000
<b>Profit before taxation is after charging:</b>		
Research and development expenditure (including staff costs)	-	374
Net foreign exchange losses	-	146
Depreciation (see note 9)		
- on assets owned	11	14
Operating lease rentals in respect of:		
- fixtures and fittings	1	2
- land and buildings	610	645

Fees payable to the company's auditor for the audit of the company's annual accounts for 2018 was £23,000 (2017: £15,000).

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



# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £'000	2017 £'000
Interest receivable	1	6

### 6. STAFF COSTS

	2018 £'000	2017 £'000
<b>Employee costs during the year amounted to:</b>		
Wages and salaries	411	215
Social security costs	40	31
Other pension costs	21	14
Share-based payments	24	59
	496	319

	No.	No.
<b>The average monthly number of persons employed by the company was as follows:</b>		
Research and development	-	4
Administration	7	1
	7	5

The directors did not receive any fees or emoluments from the company during the year directly attributable to their position within the company (2017: £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.

### 7. TAX ON PROFIT

	2018 £'000	2017 £'000
<b>Current taxation</b>		
UK corporation tax	240	1,184
Adjustments in respect of prior years	(127)	(1,213)
	113	(29)
<b>Deferred tax</b>		
Origination and reversal	46	17
Adjustments in respect of prior years	2	-
Effect of changes in tax rates	(5)	-
	156	(12)

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

### 7. TAX ON PROFIT (continued)

The tax assessed for the year differs from that resulting from applying the blended rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before tax	9,718	15,926
Tax at 19% (2017: 19.25%) thereon	1,846	3,065
Effects of:		
Expenses not deductible for tax purposes	99	6
Adjustment in respect of prior years	(125)	(1,213)
Effect of change in UK Corporation tax charge	(5)	(2)
Group relief	(755)	(457)
Patent box deduction	(904)	(1,411)
Tax charge/(credit) for year	156	(12)

The Finance (No.2) Act 2015 provided for a reduction in the main rate of corporation tax from 20% to 19% which was effective from 1 April 2017, and a reduction to 18% from 1 April 2020. Finance Act 2016 provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020. Finance Act 2019 is not expected to impact the tax position for future periods.

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

### 8. INTANGIBLE FIXED ASSETS

	Intellectual property £'000	Software £'000	Total £'000
<b>Cost</b>			
At 1 January 2018 and 31 December 2018	6,300	591	6,891
<b>Accumulated depreciation</b>			
At 1 January 2018 and 31 December 2018	6,300	591	6,891
<b>Net book value</b>			
At 31 December 2018	-	-	-
At 31 December 2017	-	-	-

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

### 9 TANGIBLE FIXED ASSETS

	Leasehold improve- ments £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2018	1,127	814	1,291	3,232
Disposals	-	(13)	-	(13)
At 31 December 2018	1,127	801	1,291	3,219
<b>Accumulated depreciation</b>				
At 1 January 2018	1,116	814	1,291	3,221
Charge for the year	11	-	-	11
Disposals	-	(13)	-	(13)
At 31 December 2018	1,127	801	1,291	3,219
<b>Net book value</b>				
At 31 December 2018	-	-	-	-
At 31 December 2017	11	-	-	11

### 10. INVESTMENTS

	2018 £	2017 £
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

	2018 £'000	2017 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings	87,565	99,590
Corporation tax	1,534	357
Accrued income	252	1,253
	89,351	101,200
<b>Amounts falling due after more than one year:</b>		
Deferred tax asset (see note 13)	87	131
	89,438	101,331

Amounts owed by group undertakings are trading balances under normal commercial terms and interest is not charged. Group undertakings consists of companies within the Xaar group where Xaar plc is the ultimate controlling company.

# XAAR TECHNOLOGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

	2018 £'000	2017 £'000
Amounts owed to parent undertaking	36,218	67,668
Amounts owed to group undertakings	-	-
Taxation and social security	-	185
Amount due to pension scheme	-	128
Accruals and deferred income	9	-
	<u>36,227</u>	<u>67,981</u>

Amounts owed to parent undertaking consists of amounts due to Xaar plc, the parent company of Xaar Technology Limited. The amounts owed are trading balances under normal commercial terms and interest is not charged.

### 13. DEFERRED TAX

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

	Accelerated tax depreciation £'000	Share options £'000	Other temporary differences £'000	Total £'000
At 1 January 2018	99	16	16	131
Prior year adjustment	-	-	(2)	(2)
Charge to income	(16)	(11)	(14)	(41)
Charge to equity	-	(1)	-	(1)
	<u>83</u>	<u>4</u>	<u>-</u>	<u>87</u>
At 31 December 2018	83	4	-	87

The closing deferred tax asset at 31 December 2018 has been calculated at 17% reflecting the tax rate at which the deferred tax asset is expected to be reversed in future periods.

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.

### 14. CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid 4,445,322 ordinary shares of £1 each	<u>4,445</u>	<u>4,445</u>

### 15. RESERVE FOR OWN SHARES

	£'000
At 1 January 2018 and 31 December 2018	<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 2018 and 2017 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 2018 was £132,404 (2017: £337,397). 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 2018**

#### **16. SHARE-BASED PAYMENTS**

##### **Equity-settled share option scheme**

The parent company, Xaar plc, has share option schemes which 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 standard 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, 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.

The Xaar 2007 and 2017 Share Save schemes provide an opportunity to all UK employees to save a set monthly amount (up to £500) 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 from 2015) 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 and 2017 Share Save Schemes and Xaar Share Incentive Plan are not subject to performance conditions.

The weighted average share price at the date of exercise for share options exercised during the period was £3.42 (2017: £4.75). No options were granted in 2018. The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 1 year, and a range of exercise prices between 0 pence and 417 pence. In 2017, options were granted on 13 April and 1 November 2017. The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 2 years, and a range of exercise prices between 0 pence and 417 pence.

##### **Long Term Incentive Plan**

The company's Long Term Incentive Plan is open to all employees of the company. As at 31 December 2017 all unvested LTIP share awards granted before 2015 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 from 2015 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 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) For 2015 and 2016 grants 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. For 2017 grants, TSR outperformance multiplier determined by comparison to the FTSE Small Cap Index, whereby a performance multiplier of between 116.7% (for upper quartile performance) and 150% or 200% (for upper decile performance) is applied to the base award relating to awards granted with EPS and revenue performance conditions.
- (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

## **XAAR TECHNOLOGY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2018**

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

##### **Long Term Incentive Plan (continued)**

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.

Key individuals have previously been 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 year was £2.90. There were no Performance Share Awards made during the current year. The performance share awards outstanding at 31 December 2018 had a weighted average remaining contractual life of 7 years. In 2017, performance share awards were made on 16 May 2017 and no LTIPs were exercised in 2017. The performance share awards outstanding at 31 December 2017 had a weighted average remaining contractual life of 8 years.

The company recognised a total charge of £25,000 (2017: £59,000) related to equity-settled share-based payment transactions in the year.

#### **17. OPERATING LEASE ARRANGEMENTS**

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

	<b>Land and buildings</b>		<b>Fixtures and fittings</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Within one year	<u>3</u>	<u>467</u>	<u>-</u>	<u>1</u>

#### **18. 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.

At the year end 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 or at [www.xaar.com](http://www.xaar.com).