Company Registration No. 02469592

XAAR TECHNOLOGY LIMITED

Annual Report and Financial Statements

31 December 2019

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

CONTENTS

STRATEGIC REPORT

The directors present their strategic report on the affairs of the company for the year ended 31 December 2019.

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:

	2019	2018	Change
	£'000	£'000	%
Turnover	**795**	11,106	(93%)
Gross margin	**44%**	93%	(49%)
(Loss)/profit after tax	**(673)**	9,562	(107%)

Turnover for the year decreased by £10,311,000 (93%). 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 has dropped significantly to 44% (2018: 93%).

Loss after tax in 2019 is £673,000 compared to a profit of £9,562,000 in 2018. This is mainly due to reduction of license royalties revenue received in the current year.

Net assets as at 31 December 2019 were £52,345,000 (2018: £53,236,000).

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.

We also draw attention to note 21 of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19.

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

I Tichias
Director
14 July 2020
Science Park
Cambridge
CB4 0XR

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 for the year ended 31 December 2019.

Xaar Technology Limited is a private company limited by shares.

RESULTS AND DIVIDENDS

Turnover for the year was £795,000 (2018: £11,106,000) and mainly comprises of royalty fees. The loss for the year after taxation was £673,000 (2018: profit £9,562,000). No dividends were paid to Xaar plc in the year (2018: £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 AND COVID-19

The company made a loss of £673,000 (2018: profit of £9,562,000) for the year ended 31 December 2019 and has a strong financial position with net assets of £52,345,000 (2018: £53,236,000) as at 31 December 2019. The directors have received a formal letter of support from the company's parent undertaking, Xaar plc, guaranteeing continued financial support to enable the company to meet its liabilities to creditors 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. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

The Board have considered the impact of the ongoing COVID-19 impact. To date, the impact on trading has been minimal with the company's trading for the first half of 2020 in line with expectations. The company has taken a number of measures to ensure the health and wellbeing of its employees and this will remain the priority for the company. Xaar is working closely with all of its stakeholders to ensure the continuity of supply across the whole of the supply chain.

Whilst the impact of COVID-19 on the performance year to date has been minimal the long term implications of the spread of virus remain uncertain making it difficult to determine the impact on the 2020 financial performance. The Board have therefore performed a number of stress tests to assess the company's ability to continue as a going concern. The Xaar Group continues to enjoy a strong cash position and is well positioned to cope with the current situation. The Board remains confident in the long term future prospects for the Xaar Group and its ability to continue as a going concern for the foreseeable future. After making enquiries, and having regards to the principal risks the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, based on the Xaar Group's forecasts and projections for the next 12 months, taking account of reasonably possible changes in trading performance. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

POST BALANCE SHEET EVENT

Since the balance sheet date, the COVID-19 pandemic has spread across the world. This is considered a non-adjusting post balance sheet event and any impact of COVID-19 on the company is considered by the directors in note 21 of the 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.

DIRECTORS' REPORT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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:

R Mills	(Appointed 11 October 2019)
I Tichias	(Appointed 1 March 2020)
D Edwards	(Resigned 10 October 2019)
S Kenkare	(Resigned 31 December 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 2019.

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;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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

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.

DIRECTORS' REPORT (continued)

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

I Tichias
Director
14 July 2020
Science Park
Cambridge
CB4 0XR

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

Opinion

We have audited the financial statements of Xaar Technology Limited for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss 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.

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 below. 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 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.

Emphasis of matter - Effects of COVID-19

We draw attention to note 21 of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Ernst & Young LLP

Anup Sodhi (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
24 July 2020

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
TURNOVER	3	**795**	11,106
Cost of sales		**(447)**	(722)
Gross profit		**348**	10,384
Administrative expenses		**(949)**	(667)
OPERATING (LOSS)/PROFIT		**(601)**	9,717
Interest receivable and similar income	5	**2**	1
Interest payable and similar expenses	6	**(9)**	-
(LOSS)/PROFIT BEFORE TAXATION	4	**(608)**	9,718
Tax on loss/(profit)	8	**(65)**	(156)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		**(673)**	9,562

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.

BALANCE SHEET
As at 31 December 2019

	Note	2019 £'000	2018 £'000
FIXED ASSETS			
Intangible assets	9	-	-
Tangible assets	10	-	-
Investments	11	-	-
Right-of-use assets	12	**451**	-
Deferred tax assets	15	-	87
		451	87
CURRENT ASSETS			
Debtors	13	**52,863**	89,351
Cash at bank and in hand		**594**	25
		53,457	89,376
CREDITORS: amounts falling due within one year	14	**(1,563)**	(36,227)
NET CURRENT ASSETS		**51,894**	53,149
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		**52,345**	53,236
CAPITAL AND RESERVES			
Called up share capital	16	**4,445**	4,445
Share premium account		**1,105**	1,105
Capital contribution reserve		**522**	512
Reserve for own shares	17	**(20)**	(20)
Profit and loss account		**46,293**	47,194
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**52,345**	53,236

The financial statements of Xaar Technology Limited, registered number 02469592, were approved by the Board of Directors and authorised for issue on 14 July 2020.

Signed on behalf of the Board of Directors

I Tichias

Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Note	Share capital £'000	Share premium account £'000	Capital contri-bution reserve £'000	Reserve for own shares (note 17) £'000	Profit and loss account £'000	Total £'000
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	18	-	-	25	-	-	25
Tax on share based-payments	15	-	-	-	-	(1)	(1)
At 31 December 2018		4,445	1,105	512	(20)	47,194	53,236
Restatement of opening retained earnings for IFRS16		-	-	-	-	(226)	(226)
At 1 January 2019		4,445	1,105	512	(20)	46,968	53,010
Loss for the financial year		-	-	-	-	(673)	(673)
Total comprehensive loss for the year		-	-	-	-	(673)	(673)
Credit to equity for share-based payments	18	-	-	10	-	-	10
Tax on share based-payments	15	-	-	-	-	(2)	(2)
At 31 December 2019		4,445	1,105	522	(20)	46,293	52,345

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

1. ACCOUNTING POLICIES

The principal accounting policies, all of which have been applied consistently throughout the year and preceding year unless otherwise stated, 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), financial intruments disclosure (IFRS 7), 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 20.

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 and COVID-19

The company made a loss of £673,000 (2018: profit of £9,562,000) for the year ended 31 December 2019 and has a strong financial position with net assets of £52,345,000 (2018: £53,236,000) as at 31 December 2019. The directors have received a formal letter of support from the company's parent undertaking, Xaar plc, guaranteeing continued financial support to enable the company to meet its liabilities to creditors 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. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

The Board have considered the impact of the ongoing COVID-19 impact. To date, the impact on trading has been minimal with the company's trading for the first half of 2020 in line with expectations. The company has taken a number of measures to ensure the health and wellbeing of its employees and this will remain the priority for the company. Xaar is working closely with all of its stakeholders to ensure the continuity of supply across the whole of the supply chain.

Whilst the impact of COVID-19 on the performance year to date has been minimal the long term implications of the spread of virus remain uncertain making it difficult to determine the impact on the 2020 financial performance. The Board have therefore performed a number of stress tests to assess the company's ability to continue as a going concern. The Xaar Group continues to enjoy a strong cash position and is well positioned to cope with the current situation. The Board remains confident in the long term future prospects for the Xaar Group and its ability to continue as a going concern for the foreseeable future. After making enquiries, and having regards to the principal risks the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, based on the Xaar Group's forecasts and projections for the next 12 months, taking account of reasonably possible changes in trading performance. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

1. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards

In the current year, the company has applied IFRS 16 Leases for the first time. The date of initial application of IFRS 16 is 1 January 2019. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The company assesses whether a contract is or contains a lease, at inception of the contract. The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the lease of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	As previously reported £'000	IFRS 16 adjustment £'000	As restated £'000
Fixed assets			
Right of use assets	-	318	318
Deferred tax	87	46	133
Total impact on assets	**87**	**364**	**451**
Creditors: amounts falling due within one year			
Lease liabilities	-	505	505
Creditors: amounts falling due in more than one year			
Lease liabilities	-	85	85
Total impact on liabilities	**-**	**590**	**590**
Equity			
Profit and loss account	**47,194**	**(226)**	**46,968**

The right-of-use assets of £318,000 recognised at 1 January 2019 relates to leases of building.

The table below represents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

	£'000
Operating lease commitments disclosed under IAS 17 at 31 December 2018	3
Impact of discounting	(9)
Payments due in periods covered by extension options that are included in the lease term	599
Other adjustments on transition to IFRS 16	(3)
Lease liabilities at 1 January 2019	590

For the year ended 31 December 2019, in relation to leases under IFRS 16 the company recognised the following amounts in the income statement:

	£'000
Depreciation	288
Interest expense	9

1. ACCOUNTING POLICIES (continued)

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. Sale of goods and service revenue are recognised at a point in time, unless specific conditions have been satisfied allowing revenue to be recognised over a period of time.

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.

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.

1. ACCOUNTING POLICIES (continued)

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. 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.

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.

1. **ACCOUNTING POLICIES (continued)**

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.

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.

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.

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.

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.

1. **ACCOUNTING POLICIES (continued)**

Share-based payments (continued)

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.

3. **TURNOVER AND SEGMENTAL INFORMATION**

	2019	2018
	£'000	£'000
Turnover by class of business:		
Printheads	**795**	11,106
Turnover by geographical segment:		
EMEA	**153**	8
Asia	**642**	11,098
	795	11,106

4. **(LOSS)/PROFIT BEFORE TAXATION**

	2019	2018
	£'000	£'000
(Loss)/Profit before taxation is after charging:		
Depreciation (see note 10/12)		
- on assets owned	-	11
- right-of-use asset	**288**	-
Operating lease rentals in respect of:		
- fixtures and fittings	-	1
- land and buildings	-	610

Fees payable to the company's auditor for the audit of the company's annual accounts for 2019 was £21,000 (2018: £23,000).

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

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Interest receivable	2	1

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £'000	2018 £'000
Interest expense – IFRS 16	9	-

7. STAFF COSTS

	2019 £'000	2018 £'000
Employee costs during the year amounted to:		
Wages and salaries	407	411
Social security costs	39	40
Other pension costs	21	21
Share-based payments	11	24
	478	496

	No.	No.
The average monthly number of persons employed by the company was as follows:		
Administration	7	7
	7	7

The directors did not receive any fees or emoluments from the company during the year directly attributable to their position within the company (2018: £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.

8. TAX ON LOSS/(PROFIT)

	2019 £'000	2018 £'000
Current taxation		
UK corporation tax	-	240
Adjustments in respect of prior years	(68)	(127)
	(68)	113
Deferred tax		
Origination and reversal	137	46
Adjustments in respect of prior years	(4)	2
Effect of changes in tax rates	-	(5)
	65	156

The tax assessed for the year differs from that resulting from applying the blended rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
(Loss)/ Profit before tax	(608)	9,718
Tax at 19% (2018: 19%) thereon	(116)	1,846
Effects of:		
Expenses not deductible for tax purposes	5	99
Adjustment in respect of prior years	(72)	(125)
Effect of change in UK Corporation tax charge	(7)	(5)
Group relief	-	(755)
Current year losses not recognised	181	-
Deferred tax asset and other amounts not recognised	74	-
Patent box deduction	-	(904)
Tax charge for year	65	156

The Finance (No.2) Act 2017, which was substantively enacted on 6 September 2017, provides for a reduction in the main rate of UK corporation tax from 19% to 17% on April 1, 2020. As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of the reversal, deferred tax balances at December 31, 2019 have been calculated at the rate at which the relevant balance is expected to be recovered or settled.

Following the UK Budget on 11 March 2020, the government have announced that legislation will be introduced in Finance Bill 2020 to amend the main rate of UK corporation tax to 19%. However, as this legislation has not been substantively enacted at the balance sheet date, this effect has not been included in these financial statements. No overall effect of the reversal of the rate from 17% to 19% is expected to the deferred tax balance at the balance sheet date (this is due to the fact that all U.K. balances are not currently being recognised for deferred tax).

The closing deferred tax liability at 31 December 2019 has been calculated at 17% reflecting the tax rate at which the deferred tax liability is expected to be reversed in future periods.

9. INTANGIBLE FIXED ASSETS

	Intellectual property £'000	Software £'000	Total £'000
Cost			
At 1 January 2019 and 31 December 2019	6,300	591	6,891
Accumulated depreciation			
At 1 January 2019 and 31 December 2019	6,300	591	6,891
Net book value			
At 31 December 2019	-	-	-
At 31 December 2018	-	-	-

10 TANGIBLE FIXED ASSETS

	Leasehold improve-ments £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Total £'000
Cost				
At 1 January and 31 December 2019	1,127	801	1,291	3,219
Accumulated depreciation				
At 1 January and 31 December 2019	1,127	801	1,291	3,219
Net book value				
At 31 December 2019	-	-	-	-
At 31 December 2018	-	-	-	-

11. INVESTMENTS

	2019 £	2018 £
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.

12. RIGHT-OF-USE ASSETS

The company has leases for its office and production building. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right of use asset and a lease liability (see note 1).

The right of use assets carried as non-current assets resulting from leases are presented as follows:

	Land and buildings £'000
Cost	
At 31 December 2018	-
Adjustment on transition to IFRS 16	5,842
At 1 January 2019, adjusted	5,842
Additions	421
At 31 December 2019	**6,263**
Depreciation / impairments	
At 31 December 2018	-
Adjustment on transition to IFRS 16	5,524
At 1 January 2019, adjusted	5,524
Charge for the year	288
At 31 December 2019	**5,812**
Net book value	
At 31 December 2019	**451**
At 1 January 2019 (restated)	318

The company held no leases recognised as finance leases under IAS 17 in the year ended 31 December 2019.

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrows) and the movements during the year:

	2019 '000
At 1 January 2019 (restated)	**590**
Additions	421
Accretion of interest	9
Payments	(513)
At 31 December 2019	**507**
Current	**507**

13. DEBTORS

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	**52,492**	87,565
Corporation tax	**236**	1,534
Accrued income	**135**	252
	52,863	89,351
Amounts falling due after more than one year:		
Deferred tax asset (see note 15)	**-**	87
	52,863	89,438

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.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Amounts owed to parent undertaking	**1,048**	36,218
Lease liability (see note 12)	**507**	-
Accruals and deferred income	**8**	9
	1,563	36,227

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.

15. 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	IFRS 16 £'000	Share options £'000	Total £'000
At 31 December 2018	83	-	4	87
Transition adjustment on adoption of IFRS 16	-	46	-	46
At 1 January 2019	83	46	4	133
Charge to income	(83)	(46)	(4)	(133)
At 31 December 2019	-	-	-	-

Deferred tax balances have no longer been recognised as it is not considered probable that within the UK group that there will be future taxable profits available.

16. CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid		
4,445,322 ordinary shares of £1 each	**4,445**	4,445

17. RESERVE FOR OWN SHARES

	£'000
At 1 January 2019 and 31 December 2019	(20)

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 2019 and 2018, 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 2019 was £50,461 (2018 £132,404). There has been no movement in the number of shares held in trust by Xaar Trustee Limited during the year.

18. 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 £1.11 (2018: £3.42). There were 8,364 options granted in 2019 (2018: nil). The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 2 years, and a range of exercise prices between 0 pence and 417 pence.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.

18. 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 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, three, four or five 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) For 2015 and 2016 grants, Achievement of 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.

(4) From 2017, revenue growth 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 revenue growth target or higher is achieved.

(5) From 2018, revenue from new products in the third year in the vesting 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 revenue target or higher is achieved.

18. SHARE-BASED PAYMENTS (continued)

Long Term Incentive Plan (continued)

(6) From 2019, Adjusted Basic EPS over the performance 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. TSR element over the performance period, whereby 25% of the Awards will vest if the median target v comparator group is achieved, below threshold 0% will vest and up to a maximum of 100% if the TSR ranking of the company is ranked in the upper quartile of the comparator group.

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 £1.50 (2018: £2.90). There were no Performance Share Awards made during the current and prior year. The performance share awards outstanding at 31 December 2019 had a weighted average remaining contractual life of 6 years (2018: 7 years).

The company recognised a total charge of £35,000 (2018: £25,000) related to equity-settled share-based payment transactions in the year.

19. 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 2019 £'000	Land and buildings 2018 £'000	Fixtures and fittings 2019 £'000	Fixtures and fittings 2018 £'000
Within one year	-	3	-	-

20. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

21. NON-ADJUSTING POST BALANCE SHEET EVENT – COVID-19

COVID-19 poses a risk to the health and safety of our employees and to both the demand for Xaar's product and supply of parts necessary to manufacture these.

To date the impact on trading has been minimal with the trading for the first half of 2020 in line with expectations. The Group has taken a number of measures to ensure the health and wellbeing of its employees and this will remain the priority for the Group. Xaar is working closing with all of its stakeholders to ensure the continuity of supply across the whole of the supply chain.

Whilst the impact of COVID-19 on the performance year to date has been minimal the long term implications of the spread of virus remain uncertain making it difficult to determine the impact on the 2020 financial performance.

The Group continues to enjoy a strong cash position and is well positioned, given further opportunities for cost mitigation and use of government support if required, to cope with the current situation.

Intercompany loan waivers

Following a review in March 2020 of intercompany loan balances it was decided that Xaar Technology would waive a debt owed by XaarJet Limited for the amount of £51,000,000.

The waiver agreements were signed on 22 May 2020.