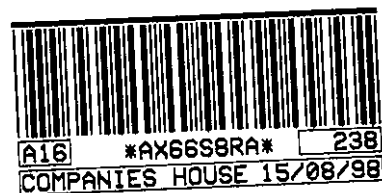


**Xaar Technology Limited**  
**(formerly Xaar Limited)**

Financial Statements for the year ended 31 December 1997  
together with Directors' report

Registered number: 2469592



## **Xaar Technology Limited (formerly Xaar Limited)**

### **Director's report**

The directors present their annual report on the affairs of the company together with the financial statements and auditors' report for the year ended 31 December 1997.

### **Principal activity and business review**

The principal activity of the company continues to be the development and commercial exploitation of a patented ink jet printing technology. The directors are of the opinion that turnover will increase and that retained earnings will improve in the next year.

The company changed its name from Xaar Limited to Xaar Technology Limited on 12 September 1997. On 13 September 1997 the entire share capital was acquired by Xaar plc by way of a share for share exchange.

### **Research and development**

The majority of the company's employees are involved in research and development and £3.4M (1996 - £2.2M) was spent on research and development in the year.

### **Results and dividends**

Turnover for the year was £4.4m (1996 -£2.5m) and principally comprises licence fees, royalties and technical consultancy fees. The loss for the year after taxation was £385,000 (1996 - £727,000). The directors do not recommend the payment of a dividend (1996 - nil).

### **Directors and their interests**

The directors who served during the year were as follows:-

G T Wylie (Executive)

J A Lowe (Executive)

S Temple (Executive, resigned 19 November 1997)

M R Shepherd (Executive, resigned 19 November 1997)

A Rosenfeld (Non executive appointed 11 February 1997, resigned 19 November 1997)

R A King (Non-executive, resigned 19 November 1997)

M J Geary (Non-executive, resigned 19 November 1997)

R C Hook (Non-executive, resigned 19 November 1997)

All the directors are also directors of Xaar plc. Details of remuneration and share option arrangements are included in the Report of the Remuneration Committee in the Report and Accounts of Xaar plc for the year ended 31 December 1997.

The directors who held office at 31 December 1997 had no interest in the issued shares of the company, which are held 100% by Xaar plc. Details of directors interest in the shares of the parent company are disclosed in the Report and Accounts of Xaar plc for the year ended 31 December 1997.

## **Xaar Technology Limited (formerly Xaar Limited)**

### **Director's report (continued)**

#### **Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year, which 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 those financial statements, the directors are required to: -

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

#### **Supplier payment policy**

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The number of supplier days outstanding at the year end, calculated using the prescribed formula was 56.

#### **Auditors**

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Science Park  
Cambridge  
CB4 4FD

17 March 1998

Registered no. 2469592

By order of the Board



J A Lowe  
Secretary

**Xaar Technology Limited (formerly Xaar Limited)**

**Auditors' report**

**To the Shareholders of Xaar Technology Limited (formerly Xaar Limited)**

We have audited the financial statements on pages 4 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

**Respective responsibilities of directors and auditors**

As described on page 2, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



**Arthur Andersen**  
**Chartered Accountants and Registered Auditors**

Betjeman House  
104 Hills Road  
Cambridge  
CB2 1LH

17 March 1998

**Xaar Technology Limited**

**Profit and loss account**

**For the year ended 31 December 1997**

	Notes	1997 £'000	1996 £'000
<b>Turnover</b>	2	4,371	2,478
Operating expenses (net)	3	(4,726)	(3,097)
<b>Operating loss</b>		(355)	(619)
Interest receivable	4	206	160
Interest payable and similar charges	5	81	(51)
<b>Loss on ordinary activities before taxation</b>	6	(68)	(510)
Tax on loss on ordinary activities	8	(317)	(217)
<b>Retained loss for the financial year</b>		(385)	(727)

There were no recognised gains and losses except for the loss for the periods and therefore no statement of total recognised gains and losses has been provided.

All operations relate to continuing activities.

A statement of movements on reserves is given in note 14.

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

# **Xaar Technology Limited**

## **Balance Sheet**

**As at 31 December 1997**

	Notes	1997 £'000	1996 £'000
<b>Fixed assets</b>			
Tangible assets	9a	1,381	1,111
Investments	9b	20	11
		<u>1,401</u>	<u>1,122</u>
<b>Current assets</b>			
Debtors	10	4,280	135
Cash at bank and in hand		1,187	5,575
		<u>5,467</u>	<u>5,710</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(1,174)</u>	<u>(903)</u>
<b>Net current assets</b>		<u>4,293</u>	<u>4,807</u>
<b>Total assets less current liabilities</b>		5,694	5,929
<b>Creditors: amounts falling due after more than one year</b>	12	(285)	(269)
<b>Net assets</b>		<u><u>5,409</u></u>	<u><u>5,660</u></u>
<b>Capital and reserves</b>			
Called-up share capital	13	4,086	3,985
Share premium account	14	925	4,141
Profit and loss account	14	398	(2,466)
<b>Shareholders' funds - all equity</b>	15	<u><u>5,409</u></u>	<u><u>5,660</u></u>

Signed on behalf of the Board  
17 March 1998

G T Wylie  
Director

J A Lowe  
Director

The accompanying notes are an integral part of this balance sheet.

## **Xaar Technology Limited**

### **Notes to the financial statements**

#### **1) Accounting policies**

The principal accounting policies, all of which have been applied consistently throughout the year and with the prior year are set out below:

##### **a) *Basis of accounting***

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

##### **b) *Tangible fixed assets***

All fixed assets are shown at original historical cost net of depreciation and, any provision for permanent diminutions in value.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life, as follows:

Improvements to leasehold property	The term of the lease
Plant and machinery, furniture and fittings	3 - 5 years
Motor vehicles	3 years

##### **c) *Investments***

Fixed asset investments are shown at cost less any amounts written off representing a permanent diminution in value.

##### **d) *Foreign currency***

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Gains or losses arising from a change in exchange rates subsequent to the date of the transactions are included as exchange gains or losses in the profit and loss account.

##### **e) *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.

##### **f) *Pension costs***

Amounts charged in the profit and loss account comprise employer's contributions payable to the company's group personal pension scheme in respect of pensionable payroll costs for the accounting year.

##### **g) *Turnover***

Turnover comprises licence fees receivable under agreements (gross of any tax withheld), royalties receivable, sales of evaluation kits to potential licensees and project consultancy fees, net of trade discounts, VAT and other sales related taxes.

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **h) *Leases***

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to operating expenses. 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.

#### **i) *Taxation***

Corporation tax payable is provided on taxable profits at the current rate.

Foreign tax payable in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) is calculated on the liability method. Deferred tax is provided on timing differences, which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

#### **j) *Cash flow statement***

The company has taken advantage of the exemption permitted in paragraph 8c of Financial Reporting Standard No. 1 (Revised), not to include a cash flow statement in its financial statements as its ultimate parent company Xaar plc (of which Xaar Technology is a wholly owned subsidiary) prepares consolidated financial statements which include a cash flow statement.



## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **2. Segment information**

Turnover by class of business:

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Licence fees	3,420	2,170
Royalties	558	14
Consultancy and other	393	294
	<u>4,371</u>	<u>2,478</u>

Turnover by geographical segment:

	<i>1997</i> <i>£000</i>	<i>1996</i> <i>£000</i>
Europe	741	161
Rest of World	3,630	2,317
	<u>4,371</u>	<u>2,478</u>

All turnover originates in the UK. No additional segmental information is provided on the basis that it would be seriously prejudicial to the interests of the company.

#### **3. Operating expenses (net)**

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Research and development costs	3,359	2,219
Selling and administration costs	1,367	878
	<u>4,726</u>	<u>3,097</u>

#### **4. Interest receivable**

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Interest receivable on short term deposits	<u>206</u>	<u>160</u>

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **5. Interest payable and similar charges**

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
On overdrafts	7	4
Finance lease interest	37	25
On all other loans	-	22
Write back of interest on other loans	(125)	-
	<u>(81)</u>	<u>51</u>

On 24 April 1997 a settlement was reached with the holders of loan stock. Under the terms of the settlement, part of the loan was forgiven, including £125,000 of rolled-up interest. A further £65,000 of loan capital was written back (see notes 6 and 11).

#### **6. Loss on ordinary activities before taxation**

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

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Auditors' remuneration		
- audit	15	8
- non audit	36	22
Depreciation		
- on assets owned	267	255
- on assets held under finance leases	173	83
Staff costs (see note 7)	2,011	1,358
Operating lease rentals in respect of:		
- Hire of plant and machinery	12	9
- Land and buildings	135	120
Profit on sale of tangible fixed assets	(1)	(9)
Exceptional write back of loan (see note 5)	(65)	-
	<u>=====</u>	<u>=====</u>

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **7. Staff costs**

Particulars of employees (including executive directors) are shown below:

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Employee costs during the year amounted to:		
Wages and salaries	1,732	1,158
Social security costs	167	115
Other pension costs	112	85
	<u>2,011</u>	<u>1,358</u>

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

	<i>1997</i> <i>Number</i>	<i>1996</i> <i>Number</i>
Research and development	47	32
Sales and marketing	9	6
Administration	7	7
	<u>63</u>	<u>45</u>

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **7. Staff costs (continued)**

##### **Directors' remuneration**

###### *Remuneration*

The remuneration of the directors was as follows :

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Emoluments	335	333
Company contributions to money purchase pension schemes	19	22
	-----	-----
	<u>354</u>	<u>355</u>

The above amounts do not include any gains made on the exercise of share options. Four directors exercised share options in the period (1996: nil)

###### *Pensions*

Four directors were members of money purchase pension schemes.

###### *Highest-paid director*

The above amounts for remuneration include the following in respect of the highest paid director:

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Emoluments	82	98
Company contributions to money purchase schemes	5	6
	----	----
	<u>87</u>	<u>104</u>

The highest paid director exchanged share options in respect of 20,000 £1 'A' ordinary shares for 200,000 10p ordinary share options in Xaar plc, which were subsequently exercised.

# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **8. Tax on loss on ordinary activities**

The tax charge comprises:

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Foreign withholding taxation	317	217
	<u>317</u>	<u>217</u>

No deferred tax has been provided due to the availability of tax losses carried forward of approximately £2.5m (1996 £2m).

### **9a. Tangible fixed assets**

	<i>Leasehold property £'000</i>	<i>Plant &amp; machinery £'000</i>	<i>Furniture &amp; fittings £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
<b>Cost</b>					
At 1 January 1997	167	1,567	138	187	2,059
Additions	-	542	115	65	722
Disposals	-	-	-	(33)	(33)
At 31 December 1997	<u>167</u>	<u>2,109</u>	<u>253</u>	<u>219</u>	<u>2,748</u>
<b>Depreciation</b>					
At 1 January 1997	125	677	79	67	948
Charge for the year	42	330	27	41	440
Disposals	-	-	-	(21)	(21)
At 31 December 1997	<u>167</u>	<u>1,007</u>	<u>106</u>	<u>87</u>	<u>1,367</u>
<b>Net book value</b>					
At 31 December 1997	<u>-</u>	<u>1,102</u>	<u>147</u>	<u>132</u>	<u>1,381</u>
At 31 December 1996	<u>42</u>	<u>890</u>	<u>59</u>	<u>120</u>	<u>1,111</u>
Leased assets included in the above:					
<b>Net book value</b>					
At 31 December 1997	<u>-</u>	<u>594</u>	<u>-</u>	<u>116</u>	<u>710</u>
At 31 December 1996	<u>-</u>	<u>472</u>	<u>-</u>	<u>68</u>	<u>540</u>

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **9b. Investment in own shares**

An Employee Benefit Trust was established in 1995 to hold shares for the benefit of the employees of the company. Xaar Trustee Limited was formed during 1995 to act as trustee to the Trust. At 31 December 1997 there were 91,250 ordinary shares in Xaar plc (1996 - 7,150 'A' ordinary shares in Xaar Technology Limited) held in trust by Xaar Trustee Limited at a cost of £20,000 (1996 - £11,000). The entire issued and paid up ordinary share capital of Xaar Trustee Limited is owned by the company (2 ordinary shares of £1 each).

#### **10. Debtors**

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Trade debtors	1,965	28
Amounts owed by group undertakings	1,759	-
VAT	48	18
Other debtors	-	20
Prepayments and accrued income	508	69
	<u>4,280</u>	<u>135</u>

#### **11. Creditors: amounts falling due within one year**

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Convertible unsecured loan stock	-	390
Obligations under finance leases and hire purchase contracts	260	190
Trade creditors	428	206
Other taxation and social security	82	62
Amount due to pension scheme	13	12
Accruals	391	43
	<u>1,174</u>	<u>903</u>

A settlement agreement was reached with the holder of the convertible unsecured loan stock on 24 April 1997. This agreement secured the total release of the company's obligations to the loan stockholder under the Loan Stock Agreement and a related Technology Purchase Agreement for a single cash payment.

# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **12. Creditors: amounts falling due after more than one year**

The following amounts are included in creditors falling due after more than one year:

	1997 £'000	1996 £'000
Obligations under finance leases and hire purchase contracts, due within 2 to 5 years	285	269

### **13. Called-up share capital**

	1997 £'000	1996 £'000
<i>Authorised ordinary shares:</i>		
5,132,072 ordinary shares of £1 each	5,132	-
'A' ordinary shares of £1 each	-	4,847
'B' ordinary shares of £1 each	-	285
Cumulative redeemable preference shares of £1 each	-	430
	<u>5,132</u>	<u>5,562</u>
 <i>Allotted, called-up and fully paid:</i>		
4,085,918 ordinary shares of £1 each	4,086	-
'A' ordinary shares of £1 each	-	3,966
'B' ordinary shares of £1 each	-	19
	<u>4,086</u>	<u>3,985</u>

On 11 September 1997, the 'B' ordinary shares of Xaar were designated 'A' ordinary shares of Xaar. The 'A' ordinary shares were then redesignated ordinary shares. The cumulative redeemable preference shares were cancelled at the same date.

On 12 September 1997, the company changed its name to Xaar Technology Limited. On 13 September 1997, the entire share capital of the company was acquired by Xaar plc in a share for share exchange.

# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **13. Called-up share capital (continued)**

Options have been granted to certain employees to subscribe for 'A' ordinary shares of £1 each. At 31 December 1997 a total of 359,404 options were outstanding and exercisable on the following terms.

	<i>At 1/1/97</i>	<i>No. of options granted</i>	<i>No. of options exchanged</i>	<i>No. of options exercised</i>	<i>No. of options lapsed</i>	<i>At 31/12/97</i>	<i>Option price</i>
Directors							
G T Wylie	20,000	-	(20,000)	-	-	-	£1.00
	148,859	-	-	-	-	148,859	£1.50
S Temple	20,000	-	(20,000)	-	-	-	£1.00
	70,428	-	-	-	-	70,428	£1.50
M R Shepherd	10,000	-	(10,000)	-	-	-	£1.00
	56,777	-	-	-	-	56,777	£1.50
R A King	20,000	-	-	(20,000)	-	-	£1.00
	10,985	-	-	(10,985)	-	-	£1.50
J A Lowe	-	60,000	(60,000)	-	-	-	£4.80
A Rosenfeld	-	100,000	(100,000)	-	-	-	£4.80
Employees	10,000	-	-	(10,000)	-	-	£1.00
	143,220	-	-	(59,880)	-	83,340	£1.50
	-	72,011	(69,011)	-	(3,000)	-	£4.80
	<u>510,269</u>	<u>232,011</u>	<u>(279,011)</u>	<u>(100,865)</u>	<u>(3,000)</u>	<u>359,404</u>	

Options are exercisable between three and ten years after the date of grant in the case of options at £1.00 and between three and seven years for those granted at £1.50 and £4.80. The options exchanged were for an equivalent number of share options in Xaar plc, the parent company of Xaar Technology Limited.



## Xaar Technology Limited

### Notes to the financial statements (continued)

#### 14. Reserves

The movement on reserves for the year is as follows:

	<i>Share premium account £'000</i>	<i>Profit &amp; loss account £'000</i>	<i>Total £'000</i>
At 1 January 1997	4,141	(2,466)	1,675
Retained loss for the period	-	(385)	(385)
Exercise of share options	36	-	36
Cost of share issue	(3)	-	(3)
Reduction of share premium	(3,249)	3,249	-
At 31 December 1997	<u>925</u>	<u>398</u>	<u>1,323</u>

The share premium account is not distributable.

On 7 August 1997, following a successful application to the courts under section 137 of the Companies Act 1985, Xaar reduced its share premium account by £3,249,000 using the reduction to eliminate the deficit in the profit and loss account.

#### 15. Reconciliation of movements in shareholders' funds

	<i>1997 £'000</i>	<i>1996 £'000</i>
Retained loss for the financial year	(385)	(727)
Opening shareholders' funds	5,660	2,488
New shares issued	137	4,152
Cost of shares issued	(3)	(253)
Closing shareholders' funds	<u>5,409</u>	<u>5,660</u>

# **Xaar Technology Limited**

## **Notes to the financial statements (continued)**

### **16. Guarantees and other financial commitments**

#### **a) Capital commitments**

At the end of the year, capital commitments were:

	<i>1997</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Contracted for but not provided for	160	76
	<u>=====</u>	<u>=====</u>

#### **b) Lease commitments**

The company has entered into non-cancellable leases in respect of fixtures and fittings, the payments for which extend over a period of up to 3 years. The total rental for the year was £12,000 (1996 £9,000).

In addition, the company leases land and buildings. The rental for the year was £135,000 (1996 £120,000). The earliest lease expired on 25 December 1997. The lease has been extended on a monthly basis pending a move to larger premises. The company has entered into an agreement to lease new premises of approximately 22,000 square feet which are currently being constructed; the lease will be for a term of 20 years. The initial annual rental will be £343,000, and this is shown below as an operating lease expiring after 5 years.

The minimum annual rentals under the foregoing leases are as follows:

	<i>Property</i>		<i>Fixtures &amp; fittings</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
- within 1 year	147	120	5	2
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
- within 2 - 5 years	-	-	7	7
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
- after 5 years	343	-	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

### **17. Related party disclosures**

As the company is a 100% owned subsidiary of a group, whose consolidated accounts are publicly available, it is not required to disclose transactions with other group undertakings that would otherwise be required under Financial Reporting Standard No. 8 'Related party disclosures'.

## **Xaar Technology Limited**

### **Notes to the financial statements (continued)**

#### **18. Parent company and controlling party**

At the year-end the company was a fully owned subsidiary undertaking of Xaar plc registered in England and Wales. The directors consider Xaar plc to be the controlling party of the company.

The largest and smallest group in which the results of the Company are consolidated is that headed by Xaar plc, whose principal place of business is 2 Science Park, Cambridge CB4 4FD. The consolidated financial statements of the group are available to the public and may be obtained from the above address.