

Xaar Technology Limited

Financial Statements for the year ended 31 December 2003
together with Directors' report and Auditors' report

Registered number: 2469592



Xaar Technology Limited

Directors' report for the year ended 31 December 2003

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 2003.

Principal activity and business review

The principal activity of the company continues to be the research, development and commercial exploitation of a patented ink jet printing technology. The directors are of the opinion that the accumulated deficit on the profit and loss will be reduced in the next year.

Research and development

The majority of the company's employees are involved in research and development and £2.1m (2002: £2.0m) was spent on research and development in the year.

Results and dividends

Turnover for the year was £2.9m (2002: £2.4m) and comprises licence fees and royalties. The loss for the year after taxation was £315,000 (2002: £762,000). The directors are unable to recommend the payment of a dividend (2002: £nil).

Directors and their interests

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

J C L Fineman (resigned 01/07/2003)

N A Berry

I Dinwoodie (appointed 01/07/2003)

All directors are also directors of Xaar plc in the year. Details of remuneration and share option arrangements are included in the Remuneration Report in the Report and Accounts of Xaar plc for the year ended 31 December 2003.

The directors who held office at 31 December 2003 had no interest in the issued shares of the company, which are 100% owned by Xaar plc. Details of directors' interests in the shares of the parent company are disclosed in the Report and Accounts of Xaar plc for the year ended 31 December 2003.

Xaar Technology Limited

Directors' report (continued)

Statement of Directors' responsibilities

United Kingdom 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 as at the end of the financial year 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 was 48 days (2002 – 56 days).


Auditors

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. The company has in place an elective regime to dispense with the need to hold annual general meetings, lay reports and accounts before the shareholders at a general meeting, and the requirement to re-appoint the auditors, Deloitte & Touche LLP, annually.

Science Park
Cambridge
CB4 0XR

2 September 2004
Registered no. 2469592

By order of the Board


N A Berry
Director

Independent auditors' report to the members of Xaar Technology Limited

We have audited the financial statements of Xaar Technology Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 company's circumstances, 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 the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge

2 September 2004

Xaar Technology Limited

Profit and loss account

For the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	2,912	2,360
Cost of sales		(39)	(152)
Gross profit		2,873	2,208
Other operating expenses (net)	3	(3,531)	(2,897)
Operating loss		(658)	(689)
Interest payable	4	(13)	(17)
Loss on ordinary activities before taxation	5	(671)	(706)
Tax on loss on ordinary activities	7	356	(56)
Retained loss for the financial year	13, 14	(315)	(762)

There were no recognised gains or losses in either year other than the loss for the year and therefore no statement of total recognised gains and losses has been provided.

All operations relate to continuing activities.

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

Xaar Technology Limited

Balance sheet As at 31 December 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	8	1,104	1,653
Investments	8	20	20
		1,124	1,673
Current assets			
Debtors	9	12,998	4,906
Cash at bank and in hand		248	-
		13,246	4,906
Creditors: amounts falling due within one year	10	(9,213)	(1,065)
Net current assets		4,033	3,841
Total assets less current liabilities		5,157	5,514
Creditors: amounts falling due after more than one year	11	(51)	(111)
Net assets		5,106	5,403
Capital and reserves			
Called up share capital	12	4,445	4,433
Share premium account	13	1,105	1,099
Profit and loss account	13	(444)	(129)
Shareholders' funds – all equity	14	5,106	5,403

Signed on behalf of the Board


N A Berry
Director

2 September 2004

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 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 tangible fixed assets are shown at original historical cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets 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	10 years
Plant and machinery, furniture, fittings and equipment	3 - 5 years
Motor vehicles	3 years

Residual value is calculated on prices prevailing at the date of acquisition.

c) *Investments*

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

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 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*

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.

Xaar Technology Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

g) *Turnover*

Turnover, all of which arises from continuing activities, comprises licence and development fees receivable under agreements (gross of any tax withheld), royalties receivable, and project consultancy fees, net of trade discounts, VAT and other sales related taxes.

h) *Leases*

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

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

i) *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 substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

j) *Cash flow statement*

The company has taken advantage of the exemption permitted in paragraph 5(a) of Financial Reporting Standard No. 1 (Revised), not to include a cash flow statement in its financial statements as its ultimate parent company, Xaar plc (of which Xaar Technology Limited is a wholly owned subsidiary), prepares consolidated financial statements which are publicly available.

Xaar Technology Limited

Notes to the financial statements (continued)

2. Segment information

Turnover by class of business:

	2003	2002
	£'000	£'000
Licence fees and royalties	2,912	2,360

Turnover by geographical segment:

	2003	2002
	£'000	£'000
Europe and Middle East	2,374	1,598
Asia	380	681
Americas	158	81
	2,912	2,360

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)

	2003	2002
	£'000	£'000
Administrative expenses	3,531	2,897

4. Interest payable and similar charges

	2003	2002
	£'000	£'000
Finance leases and hire purchase contracts	13	17

Xaar Technology Limited

Notes to the financial statements (continued)

5. Loss on ordinary activities before taxation

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

	2003 £'000	2002 £'000
Depreciation		
-on assets owned	622	720
-on assets held under finance leases	91	125
Auditors' remuneration		
-audit	20	13
-non audit	68	8
Loss/(profit) on disposal of tangible fixed assets	6	(17)
Operating lease rentals in respect of:		
-hire of plant and machinery	93	5
-land and buildings	371	371
Staff costs (see note 6)	1,172	696
Research and development expenditure	2,056	1,993

6. Staff costs

Employee costs during the year amounted to:

	2003 £'000	2002 £'000
Wages and salaries	997	596
Social security costs	103	60
Other pension costs	72	40
	1,172	696

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

	2003 No.	2002 No.
Research and development	23	19
Sales and marketing	1	-
Administration	1	1
	25	20

The directors did not receive any remuneration during the year in respect of their services to the company (2002: nil).

No directors exercised share options in the year (2002: one).

Xaar Technology Limited

Notes to the financial statements (continued)

7. Tax on loss on ordinary activities

The tax charge comprises:

	2003 £'000	2002 £'000
Corporation tax	(395)	-
Foreign tax	39	56
	(356)	56

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(671)	(706)
Tax at 30% thereon	(201)	(212)
Effects of:		
Expenses not deductible for tax purposes	(140)	(75)
Capital allowances in excess of depreciation	88	43
Current year tax losses not recognised	317	424
Movement in short term timing differences	(5)	(18)
Foreign tax expensed	(12)	(17)
R&D tax credits	(395)	-
Additional deduction for R&D expenditure	(47)	(145)
Foreign withholding tax suffered	39	56
Current tax charge for year	(356)	56

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses as the directors consider that there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £1,176,218 (2002: £1,505,039). During the year the company surrendered losses for cash under the R&D tax credit system for SME's which has reduced the unrecognised deferred tax asset. The balance of the asset would be recovered if the company was to make sufficient future taxable income.

Xaar Technology Limited

Notes to the financial statements (continued)

8a. Tangible fixed assets

	Leasehold improvements £'000	Plant & machinery £'000	Furniture, fittings & equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2003	968	4,348	726	5	6,047
Additions	-	112	58	-	170
Disposals	-	(15)	(2)	-	(17)
At 31 December 2003	968	4,445	782	5	6,200
Depreciation					
At 1 January 2003	374	3,505	512	3	4,394
Charge for the year	99	514	99	1	713
Disposals	-	(9)	(2)	-	(11)
At 31 December 2003	473	4,010	609	4	5,096
Net book value					
At 31 December 2003	495	435	173	1	1,104
At 31 December 2002	594	843	214	2	1,653

Leased assets included in the above:

Net book value

At 31 December 2003	-	122	27	1	150
At 31 December 2002	-	185	57	2	244

8b. Fixed asset investment

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 2003 and 2002 there were 91,250 10p ordinary shares in Xaar plc held in trust by Xaar Trustee Limited at a cost of £20,000. The aggregate market value of these shares at 31 December 2003 was £49,275 (2002: £21,900). 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).

Xaar Technology Limited

Notes to the financial statements (continued)

9. Debtors

Amounts falling due within one year:

	2003	2002
	£'000	£'000
Trade debtors	59	145
Amounts owed by group undertakings	12,248	3,614
VAT	47	101
Prepayments and accrued income	496	1,046
Other debtors	148	-
	12,998	4,906

10. Creditors: amounts falling due within one year

	2003	2002
	£'000	£'000
Obligations under finance leases and hire purchase contracts	60	97
Bank overdraft	-	35
Trade creditors	373	574
Amounts owed to group undertakings	8,507	-
Taxation and social security	105	107
Amount due to pension scheme	36	30
Accruals	132	222
	9,213	1,065

11. Creditors: amounts falling due after more than one year

	2003	2002
	£'000	£'000
Obligations under finance leases and hire purchase contracts due between 2 to 5 years	51	111

Xaar Technology Limited

Notes to the financial statements (continued)

12. Called-up share capital

	2003 £'000	2002 £'000
<i>Authorised:</i>		
5,132,072 ordinary shares of £1 each	5,132	5,132
<i>Allotted, called-up and fully paid:</i>		
4,445,322 (2002: 4,433,322) ordinary shares of £1 each	4,445	4,433

The increase in share capital during the year is solely attributable to the issue of shares pursuant to share option exercises set out below.

Options have been granted to certain employees to subscribe for ordinary shares of £1 each. At 31 December 2003 no options were outstanding (2002: 12,000).

	At 1/1/2003	No. of options exercised	At 31/12/2003	Option price
Options outstanding	12,000	(12,000)	-	£1.50

These options were exercisable between three and seven years after the date of the grant.

13. Statement of movement on reserves

The movement on reserves for the year is as follows:

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2003	1,099	(129)	970
Retained loss for the financial year	-	(315)	(315)
Shares issued during the year	6	-	6
At 31 December 2003	1,105	(444)	661

The share premium account is not distributable.

Xaar Technology Limited

Notes to the financial statements (continued)

14. Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Loss for the financial year	(315)	(762)
New shares issued	18	11
Net decrease to shareholders' funds	(297)	(751)
Opening shareholders' funds	5,403	6,154
Closing shareholders' funds	5,106	5,403

15. Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

	2003 £'000	2002 £'000
Contracted for but not provided	-	73

b) Lease commitments

The company has entered into non-cancellable leases in respect of fixtures and fittings and motor vehicles, the payments for which extend over a period of up to 3 years. The total rental for the year was £93,000 (2002: £5,000).

In addition, the company leases land and buildings. The rental for the year was £371,000 (2002: £371,000).

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

	Property		Fixtures & fittings		Motor vehicles	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Operating leases which expire:						
- within 1 year	-	-	5	2	2	-
- between 2 and 5 years	-	-	25	31	43	-
- after 5 years	371	371	-	-	-	-

Xaar Technology Limited

Notes to the financial statements (continued)

16. Related party disclosures

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

17. Parent company and controlling party

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

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