

Xaar plc

**Annual Report and Accounts for the year ended 31
December 1999**

Registered number: 3320972



The directors present their annual report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 December 1999.

Principal activity and business review

The principal activity of the group continues to be the development and commercial exploitation of a patented ink jet printing technology. A detailed review of the group's operations during the year and of its plans for the future is given in the Chairman's statement and the Chief Executive's review. The subsidiary undertakings of the group are listed in note 25 to the financial statements.

Research and development

£3.6m (1998: £3.4m) was spent on research and development in the year.

Results and dividends

Turnover for the year was £15.1m (1998: £1.5m) and comprises licence and development fees, royalties and sales of printheads and related products. The profit after tax for the year was £204,000 (1998: loss after tax of £4,636,000). The directors do not recommend the payment of a dividend (1998: nil).

Directors and their interests

The directors who served throughout the year, except as noted below, were as follows:

- G. T. Wylie
- J. A. Lowe
- S. Temple
- M. R. Shepherd
- H. Baker-Smith
- J. Fineman (appointed 19 August 1999)
- A. Rosenfeld
- R. A. King
- M. J. Geary
- R. C. Hook

Brief biographical descriptions of the directors and their membership of certain board committees are set out on page 8. Full details of their interests in shares of the company and its subsidiary undertakings are included in the remuneration report on pages 13 to 16.

In accordance with the company's articles of association, at the annual general meeting referred to in more detail on page 36, Messrs Wylie, Shepherd and Rosenfeld will retire from the board by rotation and offer themselves for re-election. Additionally, Mr Jan Fineman is seeking election for the first time.

Substantial shareholdings

As at 4 February 2000 the company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following material interests in its share capital:

	<i>Number of ordinary shares held</i>	<i>Percentage of issued share capital</i>
Prelude Technology Fund II Limited Partnership	4,646,400	8.3%
Fidelity International Limited	3,229,995	5.8%
Mountcashel plc	3,047,150	5.5%
Olympus Optical Co., Ltd	2,215,190	4.0%
3i plc	2,108,120	3.8%
Mr S. A. Wheeler	1,761,000	3.2%
Dainippon Screen Manufacturing Company	1,680,000	3.0%

Directors' report for the year ended 31 December 1999

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Annual General Meeting

Notice of the meeting is given on page 36. Resolutions 1 to 6 set out in the notice of the meeting deal with the ordinary business to be transacted at the meeting. The special business of the meeting (Resolutions 7 and 8) is explained below.

Power to issue securities

Resolution 7

Under the Companies Act 1985 the directors of the company may only allot shares (whether for cash or otherwise) with the authority of shareholders given at a general meeting of the company. Under Resolution 7 authority is sought to allot shares up to an aggregate nominal amount of £1,431,604 (being 14,316,042 ordinary shares), which represents the whole of the unissued share capital as at 15 February 2000. The directors do not currently have an intention to exercise the authority, other than the allotment of 1,882,220 ordinary shares in the company to be issued in exchange for ordinary shares of Xaar Technology Limited acquired by the company pursuant to a put and call mechanism in the articles of association of Xaar Technology Limited (such Xaar Technology Limited shares will be issued on the exercise of options over Xaar Technology Limited shares).

Resolution 8

This special resolution will give the directors power to allot shares for cash on a non-pre-emptive basis in the following circumstances:

- (a) in connection with a rights issue, open offer or otherwise to holders of ordinary shares but allowing the directors to make adjustments to deal with practical problems such as those arising from fractional entitlements or compliance with overseas legislation; and
- (b) other than as described in (a) above, up to a maximum aggregate nominal value of £278,419, representing 5 per cent. of the issued ordinary share capital of the company as at 15 February 2000.

The directors do not currently have an intention to exercise any power given to them by shareholders to allot shares for cash on a non-pre-emptive basis, and in any event, the directors will not allot any shares for cash on a non-pre-emptive basis if such allotment would exceed the limits established by the guidance published by the investment committees of the ABI and the NAPF.

The authorities contained in Resolutions 7 and 8 will expire no later than 15 months after the passing of those resolutions.

Charitable contributions

The group made charitable contributions during the year totalling £250 (1998: £250).

Supplier payment policy

The group's and 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.

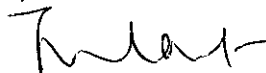
The average number of payment days to suppliers of the company during the year was 31 (1998: no trade creditors).

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 0XR
15 February 2000
Registered no. 3320972

By order of the Board



J. A. Lowe
Secretary

Compliance with the Code of Best Practice

The company has complied throughout the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code, published by the Hampel Committee and the London Stock Exchange, except that no board members received any formal training during the year. There has only been one board appointment in 1999, Jan Fineman, and he has received detailed briefings from the Chief Executive and the Finance Director regarding his responsibilities and role as a director.

Statement about applying the Principles of Good Governance

The company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as described above. Further explanation of how the Principles have been applied is set out below and, in connection with directors' remuneration, in the remuneration report.

Board of directors

The executive directors of the company are fully involved with the management of the group at all levels, and the direction and control of the company remains firmly in their hands. The board is fully involved in the nomination, selection and appointment of non-executive and executive directors, although there is no formal written procedure in place.

The board comprises the non-executive Chairman, six executive and three non-executive directors, including the senior independent director, and meets at least ten times during the year. It is responsible for the business and commercial strategy, monitoring progress, the approval of major transactions, and the approval of financial statements and operating and capital expenditure budgets. A nomination committee for board appointments has not been established, because the full board is actively involved in all appointments. There is no intention to form a nomination committee given the board's current size.

Audit committee

The audit committee comprises three of the non-executive directors, Arie Rosenfeld, Richard King and Robert Hook, and is chaired by the senior independent director, Richard King. It examines and reviews, on behalf of the board, internal financial controls, financial and accounting policies and practices, the form and content of financial reports and statements, and the work of the external auditors. The Chief Executive and the Finance Director attend meetings of the audit committee by invitation.

Remuneration committee

The remuneration committee comprises three of the non-executive directors, Arie Rosenfeld, Richard King and Michael Geary and is chaired by the senior independent director, Richard King. It makes recommendations to the board on the group's policy for executive remuneration, and determines the individual remuneration packages on behalf of the board for the executive directors of the group. The Chief Executive attends meetings by invitation. The committee has access to professional advice, both inside and outside the company, in the furtherance of its duties.

Constructive use of the AGM

The board used the AGM held on 20 April 1999 as an opportunity to present to shareholders an overview of Xaar's business model and strategy. Further presentations will be made at future AGMs.

Internal control

The board of directors has overall responsibility for ensuring that the group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used by the business and for publication, and that assets are safeguarded. There are inherent limitations in any system of internal financial control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

Corporate governance statements

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The directors have limited their comments regarding the group's system of internal control to internal financial controls, as permitted by the London Stock Exchange. Procedures necessary to implement the guidance contained in the publication "Internal Control: Guidance for Directors on the Combined Code" have been established. The key procedures that have been established and that are designed to provide effective internal financial control are described below:

- the operation of the audit committee within the terms of reference described above;
- clearly defined and segregated organisational responsibilities and limits of authority;
- well-defined financial controls and procedures including information systems implemented across the group;
- monthly reporting of financial information to the board, including comment, comparison to budgets and periodic re-forecasting; and
- established procedures relating to acquisitions, disposals and material capital expenditure.

The Combined Code requires that the framework of internal financial control is reviewed on, at least, an annual basis. The directors have performed such a review during the year. As far as the directors are aware, there have been no weaknesses in internal financial control that have resulted in any material losses, contingencies or uncertainties requiring disclosure in the financial statements.

Statement of directors' responsibilities

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 group, and of the profit or loss of the group 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

As well as complying with the Provisions of the Code as disclosed in the company's corporate governance statements, the company has applied the Principles of Good Governance relating to directors' remuneration as described below.

Remuneration committee

The principal function of the remuneration committee (the membership of which is outlined in the corporate governance statements) is to determine, on behalf of the board, the specific remuneration and other benefits of all executive directors, including pension contributions, bonus payments, share options and service contracts. The fees paid to the non-executive directors are determined by the board. Additionally, the remuneration committee makes recommendations to the board on the framework of executive remuneration.

Total level of remuneration

The remuneration committee is aware that it must both attract and retain individuals of the highest calibre by offering remuneration competitive with comparable publicly listed companies, and fairly and responsibly reward individuals for their contribution to the success of the company.

Basic salaries

The basic salary of each executive director is determined by taking into account the individual's performance and responsibilities and the achievement of personal objectives.

Bonus payments

Bonuses are non-pensionable and based on a percentage of basic salary. Bonuses are paid in recognition of each executive director's contribution to the success of the company and upon achievement of certain corporate and personal targets. Non-executive directors do not receive a bonus.

Pension scheme

The company operates a self-administered, defined contribution, Inland Revenue approved pension scheme. All current executive directors participate in this scheme. Non-executive directors do not receive pension contributions.

Share options

All executive directors are entitled to participate in the company's share option schemes. Any options granted thereunder are approved by the remuneration committee. Except for the Chairman, non-executive directors do not currently participate in the company's share option schemes. It is the policy of the company to grant share options to employees and executive directors as a means of encouraging ownership and providing incentives for performance.

Terms of appointment

Executive directors' appointments are terminable by 12 months' written notice. Non-executive directors' appointments are terminable by 6 months' written notice.

Remuneration report

Directors' remuneration

The remuneration of directors who served during the year was as follows:

<i>Director</i>	<i>Basic salary</i> <i>£'000</i>	<i>Fees</i> <i>£'000</i>	<i>Benefits in kind</i> <i>£'000</i>	<i>Bonus payments</i> <i>£'000</i>	<i>Money purchase pension contributions</i> <i>£'000</i>	Total 1999 £'000	<i>Total (including pension contributions)</i> <i>1998</i> <i>£'000</i>	<i>Money purchase pension contributions</i> <i>1998</i> <i>£'000</i>
Executive:								
G. T. Wylie	99	—	13	56	11	179	114	8
J. A. Lowe	86	—	13	41	9	149	98	7
S. Temple	81	—	8	17	9	115	93	9
M. R. Shepherd	73	—	10	9	8	100	85	7
H. Baker-Smith	73	—	11	34	8	126	17	1
J. Fineman ¹	28	—	1	18	3	50	—	—
Non-executive:								
A. Rosenfeld	—	36	—	—	—	36	36	—
R. A. King	—	24	—	—	—	24	24	—
R. C. Hook ²	—	18	—	—	—	18	18	—
M. J. Geary	—	18	—	—	—	18	18	—
	440	96	56	175	48	815	503	32

1. Appointed to the board on 19 August 1999.

2. These fees are paid to Prelude Technology Investments Limited, of which R.C. Hook is Managing Director.

Directors' share options

Directors' emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

Name	As at 1 January 1999	Granted	Exercised	As at 31 December 1999	Gain on exercise 1999 £	Exercise price	Earliest date of exercise	Expiry date
G. T. Wylie	43,300	—	—	—	15,800	15p		
	389,730	—	(389,730)	—	331,270	15p		
	148,680	—	—	148,680	—	15p	14.09.96	14.09.00
	106,880	—	—	106,880	—	15p	28.02.97	28.02.01
	100,000	—	—	100,000	—	15p	04.07.98	04.07.02
	700,000	—	—	700,000 ⁴	—	15p	17.10.97	21.03.03
	19,375	—	—	19,375 ⁵	—	50p	20.10.01	20.04.02
	1,507,965			1,074,935				
S. Temple	43,300	—	(43,300)	—	15,800	15p		
	389,730	—	(389,730)	—	331,270	15p		
	101,250	—	—	101,250	—	15p	28.02.97	28.02.01
	170,000	—	—	170,000	—	15p	09.05.99	09.05.02
	11,079	—	—	11,079 ⁵	—	88p	01.12.00	01.06.01
	715,359			282,329				
M. R. Shepherd	21,650	—	(21,650)	—	7,900	15p		
	194,870	—	(194,870)	—	165,640	15p		
	161,250	—	—	161,250	—	15p	28.02.97	28.02.01
	70,000	—	—	70,000	—	15p	04.07.98	04.07.02
	120,000	—	—	120,000	—	15p	09.05.99	09.05.02
	19,375	—	—	19,375 ⁵	—	50p	20.10.01	20.04.02
	587,145			370,625				
J. A. Lowe	200,000	—	—	200,000 ²	—	48p	01.11.99	01.11.03
	200,000	—	—	200,000 ²	—	48p	01.01.00	01.01.04
	100,000	—	—	100,000 ²	—	48p	28.04.00	28.04.04
	100,000	—	—	100,000 ²	—	48p	26.06.00	26.06.04
	19,375	—	—	19,375 ⁵	—	50p	20.10.01	20.04.02
	619,375			619,375				
H. Baker-Smith	201,620	—	—	201,620	—	62p	20.10.01	20.10.05
	48,380	—	—	48,380	—	62p	20.10.01	20.10.08
	19,375	—	—	19,375 ⁵	—	50p	20.10.01	20.04.02
	269,375			269,375				
J. Fineman	—	100,000 ⁶	—	100,000	—	85.5p	20.04.02	20.04.06
	—	150,000 ⁶	—	150,000	—	95p	16.08.02	16.08.06
	—			250,000				
A. Rosenfeld	800,000	—	—	800,000 ³	—	62p	01.01.00	30.09.01

Remuneration report

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Notes:

1. All outstanding options granted to Messrs Wylie, Temple and Shepherd (other than those granted under the Share Save Schemes and those under a separate option agreement to Mr Wylie) are in fact options held over shares in Xaar Technology Limited, a wholly owned subsidiary of Xaar plc acquired as a result of a share for share exchange on 14 September 1997. These options are held under the Xaar Technology Limited 1992 Unapproved Scheme; however, upon exercise, a put and call mechanism in the articles of association of Xaar Technology Limited provides for immediate conversion to shares in Xaar plc and therefore the figures in the above table assume such conversion.
2. These options were granted under the Xaar Technology Limited 1997 Unapproved Scheme. Mr Lowe has exchanged these options for options over Xaar plc shares.
3. These options were granted to Mr Rosenfeld under a separate option agreement which provides for exercise between 1 January 2000 and 30 September 2001.
4. This is a separate option agreement with Mr Wylie, under the terms of which the options became exercisable on 17 October 1997, the date of the admission of the company to the Official List, and lapse seven years after the date of grant.
5. These options were granted under the Xaar plc 1997 and 1998 Share Save Schemes.
6. These options were granted to Mr Fineman on 20 April 1999 and 16 August 1999 respectively. Mr Fineman was appointed to the board on 19 August 1999.

A gain on exercise of share options in 1998 was made by Mr Rosenfeld, totalling £14,000.

The market value of the ordinary shares of the company as at 31 December 1999 was 259p per share. The closing mid range price ranged from 52p to 293p per share during the year.

Directors' interests

The interests in the shares of the company and its subsidiaries as at 31 December 1999 of the directors who held office during the year are as follows:

Shareholdings in the company

	<i>No. of ordinary shares of 10p each 31 December 1999</i>	<i>No. of ordinary shares of 10p each 31 December 1998</i>
G. T. Wylie	155,870	122,840
J. A. Lowe	—	—
S. Temple	398,170	105,140
M. R. Shepherd	215,910	69,390
H. Baker-Smith	6,000	—
J. Fineman	—	—
A. Rosenfeld	100,000	100,000
R. A. King	258,580	318,580
R. C. Hook	—	—
M. J. Geary	—	—

There have been no changes in the directors' interests in shares of the company between 31 December 1999 and 15 February 2000.

To the Shareholders of Xaar plc

We have audited the financial statements on pages 18 to 35 which have been prepared under the historical cost convention and the accounting policies set out on pages 21 to 22. We have also examined the amounts disclosed relating to the emoluments, share options and pension benefits of the directors which form part of the remuneration report on pages 13 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 12, preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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. We also report to you 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 or the Listing Rules regarding directors' remuneration and transactions with the company and the group is not disclosed.

We review whether the corporate governance statement on pages 11 and 12 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

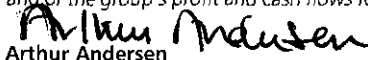
Basis of audit opinion

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 judgments 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 and of the group, 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 and of the group at 31 December 1999 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Arthur Andersen

Chartered Accountants and Registered Auditors

Betjeman House

104 Hills Road

Cambridge,

CB2 1LH

15 February 2000

Consolidated profit and loss account for the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Turnover			
Continuing operations		7,981	1,504
Acquisitions	2	7,083	—
Total turnover	2	15,064	1,504
Cost of sales	3	(6,957)	—
Gross profit		8,107	1,504
Other operating expenses (net)	3	(7,781)	(6,957)
Operating profit/(loss)			
Continuing operations		(527)	(5,453)
Acquisitions		853	—
Total operating profit/(loss)		326	(5,453)
Interest receivable	4	272	870
Interest payable	5	(56)	(43)
Profit/(loss) on ordinary activities before taxation		542	(4,626)
Tax on profit/(loss) on ordinary activities	8	(338)	(10)
Retained profit/(loss) for the financial year	19	204	(4,636)
Earnings/(loss) per share – basic	10	0.4p	(8.9p)
Earnings/(loss) per share – diluted	10	0.4p	(8.9p)

All operations of the group relate to continuing activities.

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

Consolidated statement of total recognised gains and losses

		1999 £'000	1998 £'000
Profit/(loss) for the financial year		204	(4,636)
Loss on foreign currency translation	19	(80)	—
Total recognised gains and losses relating to the year		124	(4,636)

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Consolidated balance sheet as at 31 December 1999

Xaar plc

	Notes	1999 £'000	1998 £'000
Fixed assets			
Goodwill	11	1,272	—
Tangible assets	13a	4,789	3,430
Investments	13b	20	20
		6,081	3,450
Current assets			
Stocks	14	842	38
Debtors	15	5,709	1,214
Cash and liquid resources	23	4,217	8,739
		10,768	9,991
Creditors: amounts falling due within one year	16	(3,682)	(2,030)
Net current assets		7,086	7,961
Total assets less current liabilities		13,167	11,411
Creditors: amounts falling due after more than one year	17	(415)	(227)
Net assets		12,752	11,184
Capital and reserves			
Called-up share capital	18	5,568	5,201
Share premium account	19	10,116	9,111
Other reserves	19	1,010	938
Accumulated deficit	19	(3,942)	(4,066)
Shareholders' funds – all equity	20	12,752	11,184

Signed on behalf of the Board

15 February 2000

G. T. Wylie
Director




J. A. Lowe
Director

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

Consolidated cash flow statement for the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Net cash outflow from operating activities	21	(2,210)	(3,485)
Returns on investments and servicing of finance	22	275	851
Capital expenditure and financial investment	22	(581)	(1,744)
Acquisitions (net of cash acquired)	12	(2,942)	—
Cash outflow before management of liquid resources and financing		(5,458)	(4,378)
Management of liquid resources	22	5,728	4,287
Financing	22	960	(180)
Increase/(decrease) in cash in the year	23	1,230	(271)

The accompanying notes are an integral part of this consolidated cash flow statement.

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 have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Basis of consolidation

The group financial statements consolidate the financial statements of Xaar plc and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

The company has accounted for Xaar Technology Limited under merger accounting principles and the company's consolidated profit and loss accounts for the periods prior to the merger have therefore been prepared as though Xaar Technology Limited had been a subsidiary throughout these periods.

c) Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is considered to be ten years in the case of XaarJet AB. Provision is made for any impairment.

d) Tangible fixed assets

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

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	10 years
Plant and machinery	3 – 5 years
Furniture, fittings and equipment	3 – 5 years
Motor vehicles	3 years

e) Investments

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

f) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where applicable.

g) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, if appropriate, at the forward contract rate. 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.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves. All other exchange differences are included in the profit and loss account.

h) 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.

i) 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.

j) Turnover

Turnover comprises licence and development fees receivable under agreements (gross of any tax withheld), royalties receivable, and sales of printheads and related products, net of trade discounts, VAT and other sales-related taxes.

Notes to the consolidated financial statements

1. Accounting policies (continued)

k) 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.

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.

l) 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 financial statements 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.

2. Segment information

Turnover by class of business:

	1999 £'000	1998 £'000
Licence and development fees	5,852	125
Royalties (includes £148,000 in respect of MIT (1998: £598,000))	721	1,011
Printheads and related products	8,491	368
	15,064	1,504

The acquisition of XaarJet AB (formerly MIT) had the effect of increasing sales of printheads and related products by £7,083,000. Royalties in 1998 and the period to 31 March 1999 (the date of acquiring MIT) include pre-acquisition royalty income from MIT, as disclosed above.

Turnover by geographical segment:

	1999 £'000	1998 £'000
Europe	3,871	959
Rest of World	11,193	545
	15,064	1,504

The acquisition of XaarJet AB had the effect of increasing sales by origin in Europe by £7,083,000 and sales by destination to Europe by £1,032,000 and to the Rest of World by £6,051,000. Otherwise 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. Other operating expenses (net)

	1999 £'000	1998 £'000
Research and development costs	3,629	3,437
Selling and administrative costs	3,427	2,465
Engineering costs	725	1,055
	7,781	6,957

The consolidated results of the group include the following amounts relating to the acquisition of XaarJet AB; cost of sales £4,415,000, gross profit £2,668,000 and net operating expenses £1,815,000 (namely, selling and administrative costs £1,142,000 and engineering costs £673,000).

4. Interest receivable

	1999 £'000	1998 £'000
Interest receivable on short term deposits	272	870

5. Interest payable

	1999 £'000	1998 £'000
Bank loans and overdrafts	3	—
Finance leases and hire purchase contracts	53	43
	56	43

6. Profit/(loss) on ordinary activities before taxation

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

	1999 £'000	1998 £'000
Auditors' remuneration		
– audit	41	23
– non audit ¹	37	55
Depreciation		
– on assets owned	1,251	355
– on assets held under finance leases	274	224
Amortisation of goodwill (see note 11)	103	—
Staff costs (see note 7)	6,107	2,768
Operating lease rentals in respect of:		
– Hire of plant and machinery	37	6
– Land and buildings	477	191
Loss/(profit) on disposal of tangible fixed assets	17	(9)
Government grant income	(36)	(24)

1. In addition to the above, £83,000 was paid to the company's auditors, Arthur Andersen, in respect of the acquisition of MIT. These costs are included within acquisition expenses, disclosed in note 12.

7. Staff costs

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

	1999 £'000	1998 £'000
Employee costs during the year amounted to:		
Wages and salaries	4,853	2,336
Social security costs	895	236
Other pension costs	359	196
	6,107	2,768

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

	1999 Number	1998 Number
Research and development	54	32
Sales and marketing	18	12
Manufacturing and engineering	98	32
Administration	18	10
	188	86

Remuneration of directors

The remuneration report on pages 13 to 16 includes details of directors' emoluments, which form part of these financial statements.

Notes to the consolidated financial statements

8. Tax on profit/(loss) on ordinary activities

The tax charge is based on the profit/(loss) for the year and comprises:

	1999 £'000	1998 £'000
Foreign tax	338	10

No deferred tax has been provided due to the availability of tax losses carried forward of approximately £13.8m in the United Kingdom and Sweden (1998: £6.5m).

9. Loss attributable to Xaar plc

The loss for the financial year dealt with in the financial statements of Xaar plc was £577,000 (1998: £529,000). As provided by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of Xaar plc.

10. Earnings/(loss) per share - basic and diluted

The calculation of earnings/(loss) per share is based on the profit/(loss) for the financial year after taxation and on the weighted average number of ordinary shares in issue during the year of 54,256,720 (1998: 51,904,762) in respect of basic earnings/(loss) per share, and 57,580,244 in respect of diluted earnings per share (the only difference being in relation to exercises of share options). Due to the loss incurred in 1998 no share options were deemed to be dilutive.

11. Intangible fixed assets - Goodwill

	1999 £'000
Cost	
At 1 January 1999	—
Additions (see note 12)	1,375
At 31 December 1999	1,375
Depreciation	
At 1 January 1999	—
Charge for the year	103
At 31 December 1999	103
Net book value	
At 31 December 1999	1,272
At 31 December 1998	—

12. Acquisition of Modular Ink Technology i Stockholm AB ("MIT")

On 31 March 1999 the company acquired 100% of the issued share capital of MIT (now renamed XaarJet AB) for cash consideration totalling £3.2m.

The following table sets out the fair and book values of the identifiable assets and liabilities acquired (there were no adjustments to book values considered necessary):

	<i>Fair and book value £'000</i>
Fixed assets	1,606
Current assets	
Stocks	359
Debtors	1,077
Cash at bank and in hand	210
Total assets	3,252
Creditors	
Trade creditors	(318)
Other creditors	(1,157)
Total liabilities	(1,475)
Net assets	1,777
Goodwill	1,375
	3,152
Satisfied by:	
Cash	2,864
Acquisition expenses	288
	3,152
Net cash outflows in respect of the acquisition comprised:	
Cash consideration	(3,152)
Cash at bank and in hand acquired	210
	(2,942)

The summarised profit and loss account for MIT for the year 1 April 1998 to 31 March 1999, the date of acquisition, is as follows:

	<i>Year ended 31 March 1999 £'000</i>
Turnover	5,534
Operating loss ¹	(5,851)
Interest paid	(646)
Loss on ordinary activities before and after taxation	(6,497)

There were no recognised gains or losses except for the loss for the year. The loss on ordinary activities before and after taxation for the year ended 31 March 1998 was £2,190,000.

1. The operating loss included charges of £3,569,000 in respect of changes in accounting policies and estimates.

Impact on cash flows

XaarJet AB contributed £302,000 to the group's net operating cash flows, paid £3,000 in respect of net returns on investments and servicing of finance and paid £346,000 in respect of investing activities.

Notes to the consolidated financial statements

13a. Tangible fixed assets

	<i>Leasehold property</i>	<i>Plant & machinery</i>	<i>Furniture, fittings & equipment</i>	<i>Assets in the course of construction</i>	<i>Motor vehicles</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 1999	827	3,017	431	—	262	4,537
Acquisitions	186	1,128	4	288	—	1,606
Additions	172	906	149	137	—	1,364
Exchange movements	(16)	(123)	(7)	(13)	—	(159)
Disposals	—	(54)	—	—	(26)	(80)
At 31 December 1999	1,169	4,874	577	412	236	7,268
Depreciation						
At 1 January 1999	20	906	85	—	96	1,107
Charge for the year	136	1,209	127	—	53	1,525
Exchange movements	(7)	(92)	(6)	—	—	(105)
Disposals	—	(31)	—	—	(17)	(48)
At 31 December 1999	149	1,992	206	—	132	2,479
Net book value						
At 31 December 1999	1,020	2,882	371	412	104	4,789
At 31 December 1998	807	2,111	346	—	166	3,430
<i>Leased assets included in the above:</i>						
Net book value						
At 31 December 1999	—	1,270	10	—	72	1,352
At 31 December 1998	—	490	15	—	138	643

13b. Investment in own shares

An Employee Benefit Trust was established in 1995 to hold shares for the benefit of the employees of the company and the group. Xaar Trustee Limited was formed during 1995 to act as trustee to the Trust. At 31 December 1999 and 1998 there were 91,250 10p ordinary shares in Xaar plc held in trust by Xaar Trustee Limited at a cost of £20,000 (1998: £20,000).

14. Stocks

	1999 £'000	1998 £'000
Raw materials and consumables	516	13
Work in progress	59	7
Finished goods	267	18
	842	38

There is no material difference between the balance sheet value of stocks and their replacement cost.

15. Debtors: amounts receivable within one year

	1999 £'000	1998 £'000
Trade debtors	4,860	433
VAT	206	110
Prepayments and accrued income	643	671
	5,709	1,214

16. Creditors: amounts falling due within one year

	1999 £'000	1998 £'000
Obligations under finance leases and hire purchase contracts	722	279
Trade creditors	1,500	1,138
Other taxation and social security	279	92
Amounts due to pension scheme	22	22
Other creditors	440	—
Accruals	719	499
	3,682	2,030

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

	1999 £'000	1998 £'000
Obligations under finance leases and hire purchase contracts, due between 2 to 5 years	415	227

18. Called-up share capital

	1999 £'000	1998 £'000
<i>Authorised</i>		
70,000,000 ordinary shares of 10p each	7,000	7,000
<i>Allotted, called-up and fully paid</i>		
55,683,958 (1998: 52,010,248) ordinary shares of 10p each	5,568	5,201

The movement during the year on the company's allotted, called-up and fully paid shares was as follows:

	1999 £'000	1998 £'000
At beginning of year	5,201	5,159
Consideration for Xaar Technology Limited ¹	145	25
Exercise of share options	—	17
Investment by Olympus Optical Co., Ltd	222	—
At end of year	5,568	5,201

¹ Relates to the exercise of Xaar Technology Limited share options which are subject to a put and call mechanism, whereby each £1 ordinary Xaar Technology Limited share option exercised and allotted is exchanged for ten 10p ordinary shares in Xaar plc.

Notes to the consolidated financial statements

18. Called-up share capital (continued)

Options have been granted under separate share option schemes to subscribe for ordinary shares of the company as follows:

<i>Scheme</i>	<i>Date of grant</i>	<i>Number of shares under option</i>	<i>Subscription price per share – pence</i>
Xaar Technology Limited	1 May 1993	32,290	15p
1992 Unapproved	14 Sep 1993	148,680	15p
Scheme (see note (i) below)	28 Feb 1994	491,250	15p
	4 Jul 1995	170,000	15p
	1 Aug 1995	50,000	15p
	9 May 1996	290,000	15p
		1,182,220	
Option Agreement (see note (ii) below)	21 Mar 1996	700,000	15p
Xaar Technology Limited	11 Feb 1997	686,560	48p
1997 Unapproved	28 Apr 1997	100,000	48p
Scheme (see note (iii) below)	26 Jun 1997	335,000	48p
		1,121,560	
Option Agreement (see note (iv) below)	20 Oct 1998	800,000	62p
Xaar plc 1997 Share	24 Oct 1997	37,500	110p
Option Scheme	20 Oct 1998	480,000	62p
	18 Mar 1999	37,500	52.5p
	20 Apr 1999	100,000	85.5p
	17 May 1999	75,000	90p
	16 Aug 1999	150,000	95p
	20 Oct 1999	245,000	115p
		1,125,000	
Xaar plc Share Save	17 Oct 1997	51,445	88p
Scheme	20 Oct 1998	564,199	50p
	20 Oct 1999	121,901	92p
		737,545	
Total share options outstanding at 31 December 1999		5,666,325	

Options under the Xaar Technology Limited 1992 Unapproved Scheme, the Xaar Technology Limited 1997 Unapproved Scheme and the Xaar plc 1997 Share Option Scheme are exercisable within three to seven years after the date of the grant, except that approved options granted under the Xaar plc 1997 Share Option Scheme are exercisable within three to ten years after the date of the grant. The maximum value of approved options, under the Xaar plc 1997 Share Scheme, which may be granted to individual employees is £30,000.

Options under the Xaar plc Share Save Scheme are exercisable between 36 and 42 months after the date of the grant.

- (i) Options under this scheme are in fact options over Xaar Technology Limited shares. However, as a put and call mechanism provides for immediate conversion to Xaar plc shares upon exercise, the figures included in the above table assume such conversion.
- (ii) This is a separate option agreement with G.T. Wylie, under which the options became exercisable on 17 October 1997, the date of the admission of the company to the Official List, and lapse seven years after the date of grant.
- (iii) Holders of the options under this scheme have exchanged their options for options in Xaar plc.
- (iv) This is a separate option agreement with A. Rosenfeld under the terms of which the options are exercisable between 1 January 2000 and 30 September 2001.

19. Capital and reserves

The movement on reserves for the year is as follows:

	<i>Called-up share capital</i>	<i>Share premium account</i>	<i>Accumulated deficit</i>	<i>Other reserves</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 January 1999	5,201	9,111	(4,066)	938	11,184
Retained profit for the financial year	—	—	204	—	204
Shares issued during the year	367	1,005	—	72	1,444
Loss on foreign currency translation	—	—	(80)	—	(80)
At 31 December 1999	5,568	10,116	(3,942)	1,010	12,752

The share premium account and other reserves are not distributable. Other reserves represent the share premium account in Xaar Technology Limited.

20. Reconciliation of movements in group shareholders' funds

	<i>1999 £'000</i>	<i>1998 £'000</i>
Profit/(loss) for the financial year	204	(4,636)
New shares issued	1,444	118
Loss on foreign currency translation	(80)	—
Net increase/(decrease) in shareholders' funds	1,568	(4,518)
Opening shareholders' funds	11,184	15,702
Closing shareholders' funds	12,752	11,184

21. Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	<i>1999 £'000</i>	<i>1998 £'000</i>
Operating profit/(loss)	326	(5,453)
Depreciation charge	1,525	579
Amortisation of goodwill	103	—
Loss/(profit) on disposal of tangible fixed assets	17	(9)
Increase in stocks	(463)	(38)
(Increase)/decrease in debtors	(3,918)	1,411
Increase in creditors	200	25
Net cash outflow from operating activities	(2,210)	(3,485)

Notes to the consolidated financial statements

22. Analysis of cash flows

	1999 £'000	1998 £'000
Returns on investments and servicing of finance		
Interest received	332	894
Interest paid	(4)	—
Interest element of finance lease rentals	(53)	(43)
Net cash inflow	275	851
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(596)	(1,770)
Sale of tangible fixed assets	15	26
Net cash outflow	(581)	(1,744)
Management of liquid resources		
Decrease in treasury deposits	5,728	4,287
Net cash inflow	5,728	4,287
Financing		
Issue of ordinary share capital	1,444	118
Capital element of finance lease rental payments	(484)	(298)
Net cash inflow/(outflow)	960	(180)

23. Analysis and reconciliation of net funds

	1 January 1999 £'000	Cash flow £'000	Exchange differences £'000	Other non- cash changes £'000	31 December 1999 £'000
Cash at bank and in hand	26	1,230	(24)	—	1,232
Finance leases	(506)	484	—	(1,115)	(1,137)
Treasury deposits	8,713	(5,728)	—	—	2,985
Net funds	8,233	(4,014)	(24)	(1,115)	3,080
				1999 £'000	1998 £'000
Increase/(decrease) in cash in the year				1,230	(271)
Cash outflow from decrease in lease financing				484	298
Cash inflow from decrease in liquid resources				(5,728)	(4,287)
Change in net funds resulting from cash flows				(4,014)	(4,260)
Exchange differences				(24)	—
New finance leases				(1,115)	(259)
Movement in net funds in year				(5,153)	(4,519)
Net funds at beginning of year				8,233	12,752
Net funds at end of year				3,080	8,233

Cash and liquid resources comprise:

	1999 £'000	1998 £'000
Cash at bank and in hand	1,232	26
Treasury deposits	2,985	8,713
	4,217	8,739

24. Guarantees and other financial commitments**a) Capital commitments**

At the end of the year, capital commitments were:

	1999 £'000	1998 £'000
Contracted for but not provided for	306	329

b) Lease commitments

The group has entered into non-cancellable leases in respect of fixtures, fittings and equipment, the payments for which extend over a period of up to 3 years. The total rental for the year was £37,000 (1998: £6,000).

In addition, the group leases land and buildings. The rental for the year was £477,000 (1998: £191,000).

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

	<i>Property</i>		<i>Fixtures & fittings</i>	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Operating leases which expire:				
– within 1 year	—	—	1	3
– between 2 and 5 years	241	—	36	9
– after 5 years	343	343	—	—

25. Subsidiary undertakings

The following entities are wholly-owned subsidiary undertakings of the company:

<i>Name & country of incorporation</i>	<i>Registered office</i>	<i>Issued & fully paid-up share capital</i>	<i>Proportion of ordinary share capital held by the company</i>
Xaar Technology Limited England and Wales	Science Park, Cambridge CB4 0XR	4,257,100 ordinary £1 shares	100%
XaarJet Limited England and Wales	Science Park, Cambridge CB4 0XR	2 ordinary £1 shares	100%
Xaar Trustee Limited ¹ England and Wales	Science Park, Cambridge CB4 0XR	2 ordinary £1 shares	100%
Xaar Digital Limited ² England and Wales	Science Park, Cambridge CB4 0XR	1 ordinary £1 share	100%
XaarJet AB Sweden	Box 516, SE-17526, Jarfallä, Sweden	1,000 ordinary shares of SEK 100 each	100%
Xaar Technology Inc. ² USA	c/o Morrison & Foerster LLP 755 Page Mill Road, Palo Alto, California, USA	100 ordinary \$1 shares	100%

1. Xaar Trustee Limited shares are held by Xaar Technology Limited.

2. Non-trading subsidiary companies.

The principal activity of Xaar Technology Limited is the development and commercial exploitation of patented ink jet printing technologies. The principal activity of XaarJet Limited and XaarJet AB is the manufacture and marketing of specialist Xaar printheads and inks. No subsidiary undertakings have been excluded from the consolidation.

Notes to the consolidated financial statements

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26. Financial instruments

The finance review on page 7 provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the group faces in its activities. The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS13"). Certain financial assets such as investments in subsidiaries are excluded from the scope of these disclosures. As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures.

Interest rate profile

The group has no financial assets, other than fixed rate deposits of £2,985,000 (1998: £8,713,000), which are part of the financing arrangements of the group (included in the 1998 amount was £313,000 in respect of a US dollar deposit, held in relation to a specific capital expenditure commitment). The weighted average rate of interest in respect of the sterling deposits was 5.2% (1998: 6.6%). The weighted average period to maturity for which these rates were fixed was 17 days (1998: 20 days). No individual deposits exceeded three months in duration.

The group's financial liabilities, totalling £1,137,000 at 31 December 1999 (1998: £506,000), solely comprising finance leases and hire purchase commitments, are all fixed rate sterling agreements with a weighted average interest rate of 8.9% (1998: 8.9%). The weighted average period to maturity in respect of these finance lease and hire purchase obligations is 20 months (1998: 24 months).

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December 1999 was as follows:

	<i>Borrowings</i> <i>(notes 16 and 17)</i>	
	1999	1998
	£'000	£'000
In one year or less	722	279
In more than one year but not more than two years	415	170
In more than two years but not more than five years	—	57
Total	1,137	506

Borrowing facilities

The group had no borrowing facilities at 31 December 1999 (1998: none).

Fair values

There was no material difference between the book value and fair value of the group's financial instruments in either financial year.

Gains and losses on hedges

No unrecognised gains or losses existed at 31 December 1999 (1998: none) in respect of the group's financial instruments.

Market price risk

Interest rate risk

Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return. In practice, this has meant that no deposits were made with a maturity date greater than three months during the year (1998: three months).

26. Financial instruments (continued)**Currency exposures**

As explained in the finance review on page 7, the group's objective in managing the currency exposures arising from its net investment overseas (in other words, its structural currency exposures) is to maintain a broadly equivalent revenue and expense stream in local currency. Any gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved. As at 31 December 1999 these exposures were as follows:

<i>Functional currency of group operation</i>	Net foreign currency monetary assets/(liabilities)					Total £'000
	<i>Sterling £'000</i>	<i>US Dollar £'000</i>	<i>Yen £'000</i>	<i>Swiss Francs £'000</i>	<i>Deutsch Marks £'000</i>	
Sterling	—	(4)	—	—	—	(4)
Swedish Kroner	(8)	43	(40)	25	(10)	10
Total	(8)	39	(40)	25	(10)	6

There were no significant currency exposures at 31 December 1998, as the majority of transactions were denominated in sterling.

Company balance sheet as at 31 December 1999

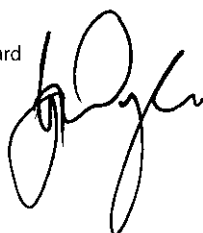
	<i>Notes</i>	1999 £'000	<i>1998</i> <i>£'000</i>
Fixed asset investments	1	7,409	4,112
Current assets			
Debtors	2	4,610	1,401
Cash and liquid resources		3,022	8,747
		7,632	10,148
Creditors: amounts falling due within one year	3	(291)	(305)
Net current assets		7,341	9,843
Net assets		14,750	13,955
Capital and reserves			
Called-up share capital	4	5,568	5,201
Share premium account	4	10,116	9,111
Accumulated deficit	4	(934)	(357)
Shareholders' funds – all equity	4	14,750	13,955

Signed on behalf of the Board

15 February 2000

G. T. Wylie

Director




J. A. Lowe

Director

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

1. Fixed asset investments

Subsidiary undertakings

	1999 £'000	1998 £'000
At beginning of year	4,112	4,086
Acquisition of Xaar Technology Limited ¹	145	26
Acquisition of XaarJet AB ²	3,152	—
Acquisition of Xaar Technology Inc.	—	—
At end of year	7,409	4,112

1. The company, pursuant to the put and call provisions in the articles of association of Xaar Technology Limited, acquired the shares issued as a result of the exercise of Xaar Technology Limited options during the year and, in consideration for their acquisition, issued ten ordinary 10p shares in the company for each £1 ordinary share so acquired.

2. Details of the acquisition of XaarJet AB (formerly MIT) are given in note 12 to the consolidated financial statements.

2. Debtors: amounts receivable within one year

	1999 £'000	1998 £'000
Amounts owed by group undertakings	4,575	1,332
VAT	4	6
Prepayments and accrued income	31	63
	4,610	1,401

3. Creditors: amounts falling due within one year

	1999 £'000	1998 £'000
Trade creditors	37	—
Other taxation and social security	4	4
Accruals	250	301
	291	305

4. Capital and reserves

	<i>Called-up share capital</i> £'000	<i>Share premium account</i> £'000	<i>Accumulated deficit</i> £'000	<i>Total</i> £'000
At 1 January 1999	5,201	9,111	(357)	13,955
New shares issued	367	1,005	—	1,372
Loss for the financial year	—	—	(577)	(577)
At 31 December 1999	5,568	10,116	(934)	14,750

Full details of movements in share capital are given in note 18 to the consolidated financial statements.

Notice of Annual General Meeting

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NOTICE IS HEREBY GIVEN that the THIRD ANNUAL GENERAL MEETING of the company will be held at Xaar plc, Science Park, Milton Road, Cambridge CB4 0XR on 21 March 2000 at 9.30am for the following purposes:

ORDINARY BUSINESS

1. To receive the company's annual financial statements for the financial year ended 31 December 1999, together with the directors' report and the auditors' report on those financial statements.
2. To reappoint Arthur Andersen as auditors to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the company at which accounts are laid and to authorise the directors to fix their remuneration.
3. To reappoint Arie Rosenfeld as a director in accordance with the company's articles of association.
4. To reappoint Graham Thomas Wylie as a director in accordance with the company's articles of association.
5. To reappoint Mark Richard Shepherd as a director in accordance with the company's articles of association.
6. To reappoint Jan Carl Ludvig Fineman as a director in accordance with the company's articles of association.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions which will be proposed in the case of Resolution 7 as an ordinary resolution and in the case of Resolution 8 as a special resolution:

7. THAT in substitution for all existing authorities the authority conferred on the directors by article 4(B) of the company's articles of association be renewed for the period expiring 15 months after the date of the passing of this resolution and for that period the "section 80 amount" is £1,431,604.
8. THAT subject to the passing of Resolution 7, the power conferred on the directors by article 4(C) of the company's articles of association be renewed for the period expiring 15 months after the date of the passing of this resolution and for that period the "section 89 amount" is £278,419.

BY ORDER OF THE BOARD

J. A. Lowe
SECRETARY

15 February 2000

NOTES

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the office of the company's registrars not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude ordinary shareholders from attending and voting in person.
3. In accordance with Regulation 34 of the Uncertified Securities Regulations 1995, the company specifies that only those members entered on the register of members of the company as at 9.30am on 19 March 2000 (or in the event the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 9.30am on 19 March 2000 (or in the event the meeting is adjourned, on the register of members less than 48 hours before the time of any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Copies of directors' service agreements and the register of directors' interests kept by the company under section 325 of the Companies Act 1985 will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.
5. Biographical details of all directors offering themselves for re-election are set out on page 8.