

# Xaar plc Press Announcement



FOR IMMEDIATE RELEASE

15 March 2005

## Xaar plc

### PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

Xaar plc ("Xaar"), the inkjet printing technology group headquartered in Cambridge, has announced its audited results for the year ended 31 December 2004.

#### KEY POINTS :

- Results reflect a sustained growth in sales and further improvements in profitability.
- The financial results for the year were :
  - Turnover was up 21% to £35.5m (2003: £29.2m);
  - Profit jumped to £6.1m (2003: loss of £1.4m) giving a 17% return on sales (before foreign exchange on the inter-company loan, tax and dividends);
  - Earnings per share increased to 7.1p (2003: 1.6p); and
  - Net cash and short term investments at 31 December 2004 were £15.3m (2003: £8.5m).
- Growth in sterling terms was affected adversely by the dollar; had rates remained at 2003 levels, sales would have been £2.4m higher.
- Dividend of 1p per share; this is the first dividend proposed by Xaar since its IPO in October 1997.
- Phil Eaves appointed as new Director of Sales and Marketing.
- Strong pipeline of new products and good progress on development partnerships is expected to boost future growth prospects.

#### On outlook, Chairman, Arie Rosenfeld stated :

*"I believe the group now has a stable, profitable, platform from which to deliver consistently high growth for the future. This will be achieved through the continued development of Xaar's technology, commercialisation of our strong pipeline of new products and their successful deployment into a diverse range of markets".*

*"We continue to see significant new adoption of digital inkjet printing, not only in the group's core graphics market, but also in new markets where the advantages of industrial inkjet are equally persuasive. The outlook for 2005 remains good."*

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## CHAIRMANS STATEMENT

### Introduction

I am pleased to report an excellent year for Xaar, with record levels of turnover, profitability, and cash generation.

### Results and Finance

Group revenues increased by 21% in the year to £35.5m (2003: £29.2m), despite continued weakness in the group's primary trading currency, the US dollar. Sales of products (printheads, inks and peripherals) were £33.1m (2003: £27.6m), with growth driven by our industry-standard XJ128 which recorded a 47% increase in unit sales.

Technology income was £1.1m (2003: £0.5m). This represents royalty receipts from licensees, and reflects their increased production and sale of Xaar-based products. Development fees were stable at £1.3m (2003: £1.1m).

The group reported an improved profit of £6.1m before tax, foreign exchange loss on the inter-company loan and dividends, representing 17% of sales. Foreign currency movements on the inter-company loan between Sweden and the UK reduced this figure to £5.9m (2003: gain of £1.8m). Earnings per share increased to 7.1p (2003: 1.6p).

Excellent cash generation of £6.8m resulted in a closing cash and short term investments balance of £15.3m (2003: £8.5m). The board is confident that profitable opportunities will be found to invest these funds in the future growth of the group.

### Dividend

Recognising the sustained improvement in trading and cash generation shown by the business, the board is recommending payment of a final dividend of 1p for the year. This will be Xaar's first dividend since becoming a public company in 1997.

### Drupa

In May 2004 Xaar exhibited at the Drupa trade show in Düsseldorf. This is the world's largest imaging and printing show held once every four years. This year's event was very well attended with 2,000 exhibitors from 52 countries reflecting a more buoyant feeling within the industry; total visitor figures for the show were almost 400,000.

Although the unofficial theme of this year's show was software, most industry commentators, including myself, labelled this the "Inkjet Drupa". There were record numbers of inkjet machines and applications demonstrated at the show, representing a coming-of-age for inkjet as a mainstream printing technology. Our own stand showcased our new OmniDot product range, as did the Agfa stand, together with customer machines incorporating Xaar's wide range of printheads. Many other stands also featured our technology covering applications such as office printers, packaging printers and printed electronics.

### Business Partnerships

Xaar continues to enjoy a long-term relationship with Agfa in the graphic arts market. In particular, the OmniDot product has been developed jointly with Agfa and Agfa has contributed substantially to the capital investment required to produce it. This additional production equipment has been installed and commissioned in our Swedish plant during 2004. Commercial shipments are due to commence on schedule during the first half of 2005.

During 2004 we also announced a number of new partnerships aimed at diversifying inkjet technology into a broader range of markets. We strongly believe the economic benefits and flexibility offered by digital inkjet, now clearly demonstrated in the printing market, are equally applicable to many other industries, particularly those where images and patterns are required. These partnerships are described in more detail in the Finance review.

## **Board Changes**

In January 2005 our Group Sales Director, Hugh Baker-Smith, resigned from the group after six years in the post. We thank him for his valuable contribution during that time and wish him well for the future.

I am pleased to welcome Phil Eaves, 51, to the board as Sales and Marketing Director. Mr Eaves joined us at the beginning of March 2005, and brings with him a wealth of experience in digital printing markets, gained with companies such as Scitex, Crosfield, Xeikon and, most recently, Dainippon Screen.

Mr Michael Geary, non-executive director, has been a member of the board for nine years and, in accordance with corporate governance guidelines on the length of tenure of non-executive directors, will be standing down at the next Annual General Meeting. I would like to thank Michael personally for his input during his time on the board which has seen the company progress from a small private company to the publicly listed group that it is today. The search for a replacement non-executive is underway.

## **Outlook**

We continue to see significant new adoption of digital inkjet printing, not only in the group's core graphics market, but also in new markets where the advantages of industrial inkjet are equally persuasive.

I believe the group now has a stable, profitable, platform from which to deliver consistently high growth for the future. The outlook for 2005 remains good.

Arie Rosenfeld  
CHAIRMAN  
14 March 2005

## CHIEF EXECUTIVE'S REVIEW

### Introduction

In last year's annual report I stated our key priority for 2004 would be to maintain the momentum generated in the second half of 2003. I am pleased to confirm this has been achieved.

In addition to managing a significant increase in printhead production, and in future production capacity, we have also invested in building the appropriate infrastructure needed to support future growth in terms of people skills, experience, IT systems and engineering design tools. We remain positioned to take maximum advantage of the opportunities which lie in front of us.

### Revenue Performance

Group revenues increased by 21% over 2003, primarily driven by strong printhead unit growth, and in particular by the XJ128. Overall, product sales accounted for 93% of revenue, with royalties accounting for 3% and development fees making up the balance of 4%.

The growth in sterling revenues was achieved despite the continued weakness of the US dollar. Revenues would have been higher by £2.4m had rates remained consistent with 2003.

The XJ128 printhead (including the new 'Plus' version) saw volume growth of 47%, and is now clearly the industry-standard digital printhead for large format external advertising. The new OmniDot printhead, co-developed with Agfa and launched during the year, will help us address the point-of-sale and indoor advertising market. The XJ500 continues to grow in the secondary case-coding packaging market, with volumes up by 27%, and volumes of the XJ126 increased by 58% during the year. The difference between the growth in unit sales and revenue reflects the sales mix of printheads and the adverse effect of currency movements.

In total, the company shipped 26 million nozzles during the year (2003: 19 million) - nozzles being the individual apertures in the printhead through which ink is ejected. Output measured in this way, as opposed to the number of printheads shipped, compensates for the fact that different printheads have different numbers of nozzles.

Xaar's direct sales of Leopard printheads (manufactured for us by Toshiba TEC) grew more slowly than we would have liked, but we must recognise that its target market, the high-end UV ink market, is still in its infancy. This is likely to limit sales in the short-term, although I am pleased to say that the first full commercial application for this product, the Impika IPS C9000 machine for digital ID and security printing, was successfully demonstrated at the Cartes 2004 show in France during November 2004.

Xaar's ink business is currently in transition and remains an area of opportunity for the future. As reported previously, for cost and logistical reasons, high volume Xaar-approved inks are now shipped direct from our ink partners with Xaar collecting a commission on each shipment. Low volume, specialist inks are shipped direct from Xaar on a purchase and resale basis.

During 2004 we saw signs of an industry shift from oil based inks to solvent based inks coupled with aggressive pricing, particularly in the Far East. These factors reduced top line sales by £1.3m over 2003. The volume of ink shipped direct by Xaar also reduced, and overall the gross margin earned on the ink business was down £0.6m. We are addressing this decline by adding to our sources of supply around the world to give end-users a wider choice of Xaar-approved inks, moving away from a product where quality has been unsatisfactory and which necessitated a change in suppliers and by addressing new geographical markets such as India and South America. Development of printhead sales into new areas of the packaging market, such as cartons and flexible packaging, also introduces the opportunity to supply higher-margin UV inks, use of which has grown strongly in recent years.

The applications division of Xaar, Vivid Print Innovations Inc., reported modest revenues; however we are seeing the operation begin to fulfil its role as a technical sales tool to open up and support new applications. It is our intention to add more integration capacity through external partnerships to leverage opportunities in these emerging fields.

## Geographic Markets

Asia continues to be our largest sales area, representing 55% of turnover, with growth of 33% in the year albeit from a relatively weak 2003. The Asian market is dominated by wide format graphics printing for external advertising. In addition to large domestic markets, many of our Asian customers are now successfully exporting to other markets, including Europe, the US, India and South America.

In November, we opened the first Xaar sales office in India and by the end of the year were supplying both ink and printheads to a number of local companies. Europe and the Middle East experienced growth of 7.5% and now represents 34% of revenues, covering both graphic arts and packaging customers. US revenues, whilst still modest at 11% of total sales, have shown their first growth for some time, being up 17% from 2003.

During 2004 we started shipping ink direct into South America, where there is already a large installed base of Xaar-based digital printing machines and we will be progressing sales to this market in the coming year.

## End User Markets

Sales into the graphics printing market grew 14% in the year and accounted for 77% of 2004 product revenues. The most dominant end market is external advertising where expenditures are forecast to grow at over 6% in 2005, second only to internet advertising. We expect to benefit from this growth, particularly as traditional screen-printing, historically the main printing medium for this market, converts to inkjet for economic and practical reasons. In addition, we will now be addressing the internal advertising and displays market through introduction of the high resolution OmniDot 760 printhead.

The packaging market for Xaar remains dominated by outer-case coding, where relatively expensive labels for outer cartons are being replaced by the printing of data directly onto the box. This area currently represents 20% of revenue and grew 46% during the year. This was driven by the XJ500, with its attractive mix of high resolution and wide print swathe offering the best combination on the market. We will further strengthen our position in this market with the launch of the XJ500CM product and the OmniDot 380 product in 2005.

Industrial markets continue to develop and are covered in more detail in the Finance review. Revenues are still modest in this space, being only 3% of product sales; however this represents a growth of 56% over the previous year. It is clear the opportunities for inkjet as a production tool across numerous applications has significant potential and we continue to nurture these markets.

## Licensees

Royalty income from licensees increased in the year to £1.1m (2003: £0.5m), as a result of increased business at a number of our licensees. In my report last year, I referred to the Orphis HC5000 office printer being developed by Olympus and manufactured by Riso using a version of the Toshiba TEC printhead. This is the first major example of Xaar's technology in the 'networked office' market and initial sales in Japan, the first market in which it was launched, have been very successful. The machine was put on global release from the end of 2004.

In October, Konica-Minolta announced the establishment of a new subsidiary, Konica-Minolta IJ Technologies Inc., in order to further expand its inkjet business. This new subsidiary encompasses all of Konica-Minolta's inkjet related products.

SII Printek (Seiko), Brother, Sharp, and Toyo Ink also continue to grow their inkjet activities based on Xaar's technology and we maintain a close relationship with all of our licensees.

Although some estimation is necessary, I am confident that Xaar and its licensees have shipped over 100 million nozzles during the year, making Xaar's technology a leading force in the industrial inkjet market.

## Research and Development

The group spent £5.0m on R&D during the year, representing a sustainable 14% of turnover. The major programmes of 2004 were; final design sign-off and transfer to production of the OmniDot printhead range; continued development of our Generation 3 printhead, and finalisation of the ink supply and electronics peripherals which are now on commercial release.

The OmniDot programme completed its final sign-off during the year and kits of both the 380 nozzle and 760 nozzle variants have been shipped for beta-site testing with selected customers. Initial responses have been very positive and transfer of the product to production is on schedule.

Xaar's third generation programme, codenamed 'Hybrid Side-Shooter' (HSS) has made excellent progress during the year. HSS offers a printhead structure with an inherently much higher jetting reliability, coupled with the ability to self-recover from 'temporary jet loss' and the ability to handle a much wider range of ink formulations, including potentially unstable inks such as metallic inks.

The target market for this third generation product is fixed head, high-throughput web or sheet-fed applications. The fundamental performance enhancements it offers were proved in prototype heads during the year and a specification for the first printhead (HSS1) has been decided upon. The head will commence alpha and beta testing during 2005, with commercial production planned to commence later in 2006.

## Manufacturing

Continued improvements in our operational performance contributed directly to improved gross margin during the year. The new management team in Sweden has instilled a culture of continuous improvement in the plant and its workforce; improvements in a number of key performance indicators have been significant, including a doubling of productivity compared to 2003.

In total, we shipped in excess of 180,000 printheads during the year, or 26 million nozzles, making it our best year by a significant margin. Facility layout changes were also implemented during the year, which not only allowed the installation of the OmniDot production capacity, but also significantly reduced the footprint required for existing products.

## Priorities for 2005

Having demonstrated the profitability of the group in 2004, the priority for 2005 and beyond is to grow the top line, whilst maintaining profitability. We expect to achieve this through a number of developments;

Firstly, continued performance enhancement of the existing Generation 1 product range (XJ64, XJ126, XJ128, XJ500 and Leopard), such as improvements to speed, resolution and their optimisation for a wider range of inks. New printing machines continue to be introduced based on our Generation 1 technology which, together with the significant global installed base of existing XJ128-based printers, offers a strong platform for growth through customer upgrade programmes. The XJ128-200 Plus, launched during the year, is a good example of this and further such variants will be launched in 2005.

Secondly, the commercial launch of the Generation 2 OmniDot range (including shipments to Agfa) will open up those markets which require higher image quality, such as interior and point-of-sale advertising, high quality poster work and other high resolution applications. The fact that the head is compatible with a very wide range of inks, including, for the first time in a Xaar printhead, water based inks, maximises the number of potential end applications.

Finally, we will target sales of inks by offering a wider range of co-branded inks, both on a local and a global basis and expect this increase in end user choice to improve our market share. We will continue to develop business opportunities in new geographical markets such as India and South America.

Alongside these activities sits our joint development work with a growing list of partners to explore the longer-term implementation of our technology into new industrial fields. The alpha testing of the Generation 3, HSS1, printhead, scheduled for mid 2005, will be a key milestone in this process.

## **People**

In business, good technology is only part of the requirement for success. Equally important are the people and I would like to thank our staff for their skill and dedication which has facilitated the results achieved in 2004 and which is a clear demonstration of the strength of the team at Xaar.

Ian Dinwoodie  
CHIEF EXECUTIVE  
14 March 2005

## **FINANCE REVIEW**

### **Results for 2004**

The results for 2004 were particularly pleasing, demonstrating both the inherent profitability of the group's technology and the increasing adoption of that technology by customers and licensees. Sales increased to £35.5m (2003: £29.2m) and gross margin to 58% (2003: 46%), the latter reflecting significant manufacturing improvements.

Other operating expenses were £14.5m, or 41% of sales (2003: £14.8m, 50% of sales) with profit before tax of £5.9m (2003: £0.4m). Profit before tax includes a loss on translation of the inter-company loan, between the UK and Sweden, of £0.2m (2003: gain £1.8m).

Taxation for the year was £1.7m (28%) (2003: credit of £0.5m), resulting in earnings per share for the year of 7.5p, compared to the 2003 loss per share of 1.4p (both figures shown before translation differences on the inter-company loan as set out in note 2).

### **International Financial Reporting Standards**

The 2004 results have been prepared under UK GAAP. For 2005 the group will prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Commission. Adoption of IFRS will inevitably lead to changes in the way the group reports its results; these changes will be seen and discussed in the 2005 interim report.

### **Foreign currency**

Sales for the year were adversely affected by the continuing weakness of the US dollar, the group's primary trading currency, which accounts for approximately 70% of invoiced sales. Compared to 2003, sales were reduced by £2.4m. Profit before tax was also adversely affected by £0.3m (2003: £0.6m) due to foreign currency movements in the year. Nonetheless, we are operating very successfully at these less favourable rates.

For 2005, invoicing will be moved from our Swedish operation to the UK. One effect of this will be to change the group's primary currency cross rate from the dollar/Swedish kronor, as was the case during 2004, to the dollar/sterling. The group will continue its current policy of hedging invoiced dollar revenues using the mechanism of a guaranteed floor rate, whilst leaving some upside available should the dollar recover.

### **Cash and capital expenditure**

Cash and short-term investments at the end of the year were £15.3m (2003: £8.5m) with strong cash collection from Asia at the end of the year. Cash is stated after capital expenditure of £2.2m (2003: £1.1m) with no lease financing in the year (2003: £2.5m). The total value of outstanding lease commitments at the end of the year was £1.9m (2003: £2.5m).

The board regularly reviews the level of cash held within the group in relation to the investment needs of the business. At this time it considers there are likely to be attractive opportunities to use the current cash reserves in developing the group's core business, particularly through increased production capacity as new products come to market and investment in key business partnerships for the future.

### **Dividend policy and dividend**

The group proposes to commence payment of a dividend for the 2004 financial year. This decision reflects the board's belief that the group's core business has achieved a minimum level of profitability which can be maintained into the future. In addition, with royalties from licensees increasing, the group has a non-trading source of income from which to fund dividend payments, without affecting its ability to reinvest trading profits back into the growth of its core business. It is the group's intention to maintain a high level of dividend cover, with cover for the 2004 final payment being 6 times. Subject to continuing satisfactory performance, it is expected that a dividend will be paid for the 2005 financial year.

Conditional on the approval of shareholders in Annual General Meeting, the dividend of 1p per share will be paid on 10 June 2005 to shareholders on the register at the close of business on 13 May 2005.

### **Business development**

I am pleased to report good progress during the year in the development of new opportunities for the group's technology.

We are focussing our resources in the following areas: the traditional printing market, the packaging market and new technology markets that can be summarised under the headings of printed electronics and biomedical. These markets are either already multi-billion pound markets or are likely to become such in the next few years. They are also markets where inkjet can offer specific advantages in terms of cost reduction, speed of response and process efficiencies.

### **Traditional Printing**

At Drupa 2004, the printing industry's largest trade show held in May of last year, we announced a key strategic partnership with MAN Roland Druckmaschinen AG, the largest traditional offset press manufacturer in the world. We are now reviewing opportunities to integrate Xaar products, including our second and third generation technology, into MAN Roland web and sheet-fed presses. The use of inkjet in combination with offset printing will offer customers greater flexibility for variable data and special coatings.

Another traditional market of increasing interest is textile printing. In this area we are working under confidentiality agreements on two projects to assess the potential for inkjet to replace traditional printing processes.

### **Packaging**

In the area of narrow-web labels we have signed a development agreement which remains subject to confidentiality terms. The partner in question supplies post-press converting and finishing equipment for the narrow-web label market, the first application of Xaar's technology will be spot varnishing. I look forward to reporting on progress in due course.

### **New Technologies**

Under the overall heading of 'new technologies', we have identified four key sectors on which to focus; the production of PCBs (printed circuit boards), the use of inkjet in the manufacture of electronic displays covering both LCD (liquid crystal) and OLED (organic light emitting diode) displays, semi-conductor manufacture and biomedical processes.

In these applications inkjet can offer significant advantages over current production techniques, including short-run flexibility, lower investment in capital equipment and highly accurate patterning and deposition for high value fluids. In addition, many existing production techniques are based around subtractive processes which are environmentally unfriendly and produce high levels of waste material. Inkjet, as an additive process, deposits materials only where required.

In PCBs, one of our key relationships is with Rohm and Haas Inc. (NYSE: ROH), with whom we are developing a range of etch and solder masks capable of deposition through Xaar printheads. With Xenxia Ltd. we are testing conductive and decorative metallic inks, suitable for a range of applications, and also in this area is our relationship with Invint Ltd., one of the leaders in applying new conductive polymer technology to interconnect applications in fields such as PCBs, RFID tags and smart cards.

In the field of semi-conductors we have announced an important relationship with Molecular Imprints Inc. (MII) in Austin, TX, USA who have developed a unique step and flash lithography process incorporating Xaar's printheads which is potentially applicable to a wide range of industries including semi-conductors, photonics, nano fabrication and advanced packaging.

For these new applications our recently launched OmniDot printhead, with its extremely fine drop size down to 3 picolitres (a picolitre being one millionth of one millionth of a litre, which we can deposit accurately to less than five thousandths of a millimetre), looks set to become a key industry product. In web-based applications, such as traditional printing and packaging, we expect our new HSS printhead, incorporating Xaar's unique recirculating ink supply for added reliability, to be rapidly accepted by the market over the next twelve to eighteen months.

### **Integrator Programme**

Key to the successful adoption of inkjet by these new markets, which have little or no experience of using inkjet technology, is the provision of professional integration services. Whilst Xaar provides printheads and support products, it does not design or supply finished printing equipment incorporating those products. In the group's core graphic arts market, which has several years experience of using inkjet, individual customers have developed their own design and integration skills.

It is important to our success in entering new markets that we provide potential end-users with access to integration skills, in order to provide turnkey solutions for the specific needs of each new application. The group addressed this issue in part through the acquisition of Vivid Print Innovations Inc. in 2003, but the range of opportunities now being generated requires a greater level of resource than Vivid alone can provide. To this end, it is Xaar's intention to establish a small but capable network of integration partners, including Vivid Print, with whom the group will work to provide high quality solutions for the new applications generated by Xaar's business development team. Further news on this programme will be announced in due course.

Overall, we are positioning ourselves well to diversify the range of markets into which we sell our products, and 2005 should see significant progress in this respect.

Nigel Berry  
FINANCE DIRECTOR AND DEPUTY CHIEF EXECUTIVE  
14 March 2005

**Consolidated profit and loss account  
for the year ended 31 December 2004**

	<i>2004</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
<b>Turnover</b>	<b>35,479</b>	29,230
<b>Cost of sales</b>		
Exceptional XJ500 cost	-	(1,068)
Exceptional production cost	-	(767)
Non-exceptional cost of sales	<u>(15,078)</u>	<u>(13,920)</u>
<b>Total cost of sales</b>	<u>(15,078)</u>	<u>(15,755)</u>
<b>Gross profit</b>	<b>20,401</b>	13,475
Other operating expenses (net)	<u>(14,462)</u>	<u>(14,775)</u>
<b>Operating profit/(loss) on ordinary activities</b>	<b>5,939</b>	(1,300)
<b>Interest receivable and similar income</b>		
Foreign exchange gain on inter-company loan	-	1,791
Interest receivable	<u>306</u>	<u>135</u>
<b>Total interest receivable and similar income</b>	<b>306</b>	1,926
<b>Interest payable and similar expenditure</b>		
Foreign exchange loss on inter-company loan	(231)	-
Interest payable	<u>(100)</u>	<u>(180)</u>
<b>Total interest payable and similar expenditure</b>	<b>(331)</b>	(180)
<b>Profit on ordinary activities before taxation</b>	<b>5,914</b>	446
Tax on profit on ordinary activities	<u>(1,658)</u>	<u>501</u>
<b>Profit on ordinary activities after taxation</b>	<b>4,256</b>	947
Dividends paid and proposed	<u>(601)</u>	<u>-</u>
<b>Retained profit for the financial year</b>	<u><b>3,655</b></u>	<u>947</u>
Earnings/(loss) per share excluding foreign exchange (loss)/gain on inter-company loan – basic	<u><b>7.5p</b></u>	<u>(1.4)p</u>
Earnings per share – basic	<u><b>7.1p</b></u>	<u>1.6p</u>
Earnings per share – diluted	<u><b>6.9p</b></u>	<u>1.6p</u>

**Consolidated statement of total recognised gains and losses  
for the year ended 31 December 2004**

	<i>2004</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
Profit on ordinary activities after taxation for the financial year	<b>4,256</b>	947
Gain/(loss) on foreign currency translation	<u>171</u>	<u>(1,290)</u>
<b>Total recognised gains and losses relating to the financial year</b>	<u><b>4,427</b></u>	<u>(343)</u>

**Consolidated balance sheet  
as at 31 December 2004**

	<i>2004</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
<b>Fixed assets</b>		
Intangible assets	1,222	1,576
Tangible assets	<u>5,880</u>	<u>6,090</u>
	<u>7,102</u>	<u>7,666</u>
<b>Current assets</b>		
Stocks	2,485	2,592
Debtors	5,741	6,424
Short term investments	900	2,325
Cash at bank and in hand	<u>14,416</u>	<u>6,133</u>
	23,542	17,474
<b>Creditors: amounts falling due within one year</b>	<u>(8,233)</u>	<u>(5,968)</u>
<b>Net current assets</b>	<u>15,309</u>	<u>11,506</u>
<b>Total assets less current liabilities</b>	22,411	19,172
<b>Creditors: amounts falling due after more than one year</b>	(1,278)	(1,833)
<b>Provisions for liabilities and charges</b>	<u>(134)</u>	<u>(345)</u>
<b>Net assets</b>	<u>20,999</u>	<u>16,994</u>
<b>Capital and reserves</b>		
Called-up share capital	6,013	5,983
Share premium account	8,713	11,129
Own shares	(20)	(20)
Merger reserve	1,105	1,105
Other reserves	485	-
Accumulated income/(deficit)	<u>4,703</u>	<u>(1,203)</u>
<b>Shareholders' funds - all equity</b>	<u>20,999</u>	<u>16,994</u>

**Consolidated cash flow statement  
for the year ended 31 December 2004**

	<i>2004</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
<b>Net cash inflow from operating activities</b>	<b>10,093</b>	182
Returns on investments and servicing of finance	208	(49)
Taxation	(892)	(564)
Acquisitions and disposals	-	(5)
Capital expenditure and financial investment	(2,199)	(1,083)
<b>Cash inflow/(outflow) before management of liquid resources and financing</b>	<b>7,210</b>	(1,519)
Management of liquid resources	1,425	(2,325)
Financing	(444)	(587)
<b>Increase/(decrease) in cash in the year</b>	<b>8,191</b>	(4,431)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Segmental information

	2004 £'000	2003 £'000
<b>Turnover by class of business:</b>		
Printheads and related products	33,064	27,570
Development fees	1,279	1,107
Licence fees and royalties	1,136	553
	<u>35,479</u>	<u>29,230</u>
<b>Turnover by geographical segment:</b>		
Europe & Middle East	11,975	11,148
Asia	19,748	14,875
Americas	3,756	3,207
	<u>35,479</u>	<u>29,230</u>
<b>Turnover by industry segment:</b>		
Graphic arts	25,593	22,497
Packaging printing	6,566	4,494
Industrial printing	905	579
Development fees	1,279	1,107
Licence fees and royalties	1,136	553
	<u>35,479</u>	<u>29,230</u>
<b>Gross profit by class of business:</b>		
Printheads and related products	18,296	11,976
Development fees	1,173	1,087
Licence fees and royalties	932	412
	<u>20,401</u>	<u>13,475</u>

## 2. Earnings/(loss) per ordinary share - basic and diluted

The calculation of earnings per share is based upon the profit for the year after taxation and on the weighted average number of ordinary shares in issue during the year. For basic earnings per share, this is 60,043,056 (2003: 59,783,345) and for diluted earnings per share, this is 61,746,960 (2003: 60,027,840), the only difference being in relation to movements in share options.

Basic earnings/(loss) per share excluding foreign exchange loss/(gain) on the inter-company loan is based on earnings of:

	2004 £'000	2003 £'000
Profit on ordinary activities after tax	4,256	947
Foreign exchange loss/(gain) on the inter-company loan	231	(1,791)
Profit on ordinary activities after tax excluding foreign exchange loss/(gain) on the inter-company loan	<u>4,487</u>	<u>(844)</u>

The additional earnings per share information is considered to provide a fairer representation of the company's trading performance year on year.

### **3. Financial information**

The financial information contained in this preliminary announcement of audited results does not constitute the group's statutory accounts for the years ended 31 December 2004 or 31 December 2003. The accounting policies that have been applied are consistent with those applied in the preceding annual accounts. The accounts for the year ended 31 December 2003 have been delivered to the Registrar of Companies.

The statutory accounts for the years ended 31 December 2004 and 2003 have been reported on by the company's auditors; the reports on these accounts were unqualified and they did not contain any statement under section 237(2) or (3) of the Companies Act 1985.

The accounts for the year ended 31 December 2004 are expected to be posted to shareholders in due course and will be delivered to the Registrar of Companies after they have been laid before the company at the annual general meeting on 28 April 2005.

Copies will also be available from the registered office of the company, Science Park, Cambridge, CB4 0XR. The registered number of Xaar plc is 3320972.