

Imagination Technologies Limited

Annual Report and Financial Statements

30 April 2017

Registered Number 1306335

THURSDAY



A6LPZFKY

A09

21/12/2017

#477

COMPANIES HOUSE

Directors' report and financial statements

Contents	Page
Strategic report	3-8
Directors' report	9-10
Statement of directors' responsibilities	11
Independent auditor's report	12-13
Profit and loss account	14
Statement of comprehensive income	15
Balance sheet	16
Statement of changes in equity	17
Notes	18-43

Strategic report

The directors present their strategic report for the year ended 30 April 2017.

Principal activities and business review

The principal activities and operations of the company involve the creation and licensing of semiconductor processor IP for graphics, video and vision processing, general purpose and embedded processing (CPU & MCU), and our broad range of silicon IP, supported by extensive patent protection, includes the key processing blocks needed by our customers to create the Systems on Chips (SoC) that power electronic devices. We have built strong brands around these processing blocks: PowerVR in graphics and multimedia; MIPS in processors; and Enigma in connectivity.

Our business model is simple. We invest in research and development to create and provide physical IP, tools and software for our customers. We receive payments when we license our technologies to customers. They then take our IP and develop it within their products. Royalties are then received from customers when they ship products using our IP. Our licensees include many of the world's leading semiconductor manufacturers, network operators and OEMs/ODMs (Original Equipment/Device Manufacturers). Our current ecosystem partners include numerous application interface, operating system, standards and tools organisations, as well as many tier-one technology companies, game engine providers and silicon foundries.

FY17 was another notably challenging year for the business, characterised by significant restructuring, the implementation of a refreshed strategy and a dispute with our largest customer, Apple.

We executed the restructuring programme that was announced early in 2016, to plan and returned the business to profitability and positive cashflow. The £27.5m of cost savings, identified in 2016, was delivered in full, with non-core activities either sold or discontinued.

To enable the required level of investment in our core businesses, we divested or closed non-core, cash-consuming business lines. The Pure radio business, as well as Hellosoft, was sold in 2016. IMGWorks, the SoC design business, was sold in May 2017, with the FlowRadio transaction completing in June this calendar year. The remaining elements of IMGSystems were discontinued. In total over 500 employees (almost a third of the total) have left the Group since the restructuring was announced. The majority of these people continue in their roles under new ownership at Pure International, Meeami Technologies, 7digital and Sondrel.

We also announced and started the implementation of our revised strategy to build IP solutions of real scale with customers, across a wide range of markets, where we can provide leading, differentiated offerings and build defensible positions; delivering long-term value to shareholders in the process. Over the past year we have focused investment in our core IP businesses.

This strategy has resonated well with customers. Investment has been increased in PowerVR with the addition of around 50 more engineers to address market opportunities. The launch of the mid-range PowerVR Series XE GPU has been the most successful launch to date in terms of the number of new design wins with multiple customers. The launch of the new Furian GPU architecture and the high-end Series 8XT cores also cements PowerVR's technology leadership. Both MIPS and Enigma

Strategic report (continued)

made good progress towards profitability, with MIPS now almost breakeven. Enigma produced a strong performance in license sales and MIPS continued to increase its presence in the automotive market, with a number of deals, as well as continued design wins in LTE modems.

This good work has been overtaken by events following Apple informing us that they expected that the chips in their products launched at some point in 2018 or early 2019 would not require them to pay Imagination royalties. So far Apple has not shared any information to enable us to verify their statement. Imagination has invoked a contractual dispute resolution procedure under the license agreement. Imagination does not accept Apple's position and reserves all of its rights.

The potential impact on revenues if Apple does not pay us royalties on its new products has led the board to consider sale options. We announced to the market on 4 May 2017 that the MIPS and Enigma businesses would be actively marketed to concentrate our resources on PowerVR and to strengthen Imagination's balance sheet. Following significant interest in Imagination, on 22 June 2017 we announced the initiation of a formal sale process (FSP) for the whole Imagination Technologies Group Plc, to run alongside the MIPS and Enigma sale processes. Subsequent to the balance sheet date, on 25 October 2017 the MIPS Business Unit was acquired by Tallwood MIPS Inc. for consideration of \$65m. The remaining Group was then acquired by CBF Investment Limited on 2 November 2017. See note 22 towards the end of this report for further information on events after the balance sheet date, which also detail how the company and the Imagination Group is now debt free following the above events and sale and lease back of some freehold properties.

The Group continues to see good demand for licensing for its IP and expects to see further progress in license revenue in FY18, subject to uncertainty caused by the initiation of the formal sale process. Royalty unit shipments are expected to benefit from recent design wins. We fully expect to receive royalties from our largest customer over the next year.

The board are confident that with the right investment our businesses and people will continue to flourish.

Strategic report (continued)

The key performance indicators (KPIs) used in the business are summarised below (NB, these KPIs are for the Imagination Technologies Group Limited of which Imagination Technologies Limited is the largest trading entity):

Business Units	Year to 30 April 2017			Year to 30 April 2016			% var		
	PowerVR	MIPS	Enigma	PowerVR	MIPS	Enigma	PowerVR	MIPS	Enigma
Licensing Revenue (£m)	14.5	7.2	6.0	10.2	6.4	2.0	43%	13%	201%
Royalty Revenue (£m)	80.3	28.1	1.6	77.7	23.5	1.5	3%	20%	9%
Partner Chips Shipped (units, millions)	422	816	8	456	764	7	(7%)	7%	14%
Adjusted operating profit / (loss) (£m)	37.8	(1.2)	(6.5)	31.0	(5.0)	(11.7)	22%	(76%)	(44%)

Group	Year to 30 April 2017		Year to 30 April 2016		% var
Revenue (£m)	151.9		141.4		7%
Loss before tax (£m)	(9.5)		(87.5)		(89%)
Adjusted operating profit / (loss) (£m)	20.3		(24.5)		(183%)
Net debt (£m)*	(28.4)		(33.0)		(14%)
Cash outflow on Capex (£m)	4.8		20.3		(76%)

* Net debt is the total of group cash less loans and borrowings. The reconciliation is shown below:

	Year to 30 April 2017		Year to 30 April 2016	
Cash and cash equivalents (£m)	17.2		5.8	
Interest bearing loans and borrowings (£m)	(45.6)		(38.8)	
Net debt (£m)	(28.4)		(33.0)	

Principal risks and uncertainties

The company places great importance on the identification, assessment and effective mitigation and monitoring of our risks. Our approach to risk management helps us to deliver our objectives and maximise the returns of the company.

The following table describes the risks that the Board considers to have a potential material impact on the company. They are specific to the nature of our business notwithstanding that there are other risks that may occur and may impact the achievement of the company's objectives.

The Board discussions on risk have focused on these items and the actions being taken to both manage and review them regularly. The Board also recognise that the first risk listed below has potentially crystallised in that Apple, the largest customer, has claimed it will not require the business' technology in 15 to 24 months. However, the same risk still applies all the business units and remains a key concern for the Board.

Risk or uncertainty and potential impact	How we manage it
Customer Concentration	
<p>The business currently has a large portion of revenue related to a small number of customers and technologies.</p> <p>Consolidation within the industry could drive this further and increase Imagination's dependence on a limited number of customers.</p>	<p>Strategy focused across a number of market segments</p> <p>Develop relationships with a wider number of customers spread across different sectors and jurisdictions</p> <p>Monitor trends and changes in the semiconductor industry</p> <p>Develop business models that reflect the changing industry landscape</p> <p>Develop sales strategies to broaden our customer base</p> <p>Increase marketing activity to highlight the breadth of markets that we target and operate</p>
Group Strategy	
<p>In a fast moving business environment, the Group Strategy may become obsolete before it has been fully executed leaving the business without a meaningful place in the market</p>	<p>Strategy is reviewed and updated on an annual basis</p> <p>Regular monitoring of the Group strategy with the Board and EMB through the year</p>
Competitive Position	
<p>The business operates in a highly competitive market and needs to be able to respond rapidly to competitive threats as well as customer requirements.</p> <p>A change in the business environment or business models employed by our customers could have a detrimental impact on our financial performance.</p>	<p>Drive and deliver new product developments and enhancements which deliver leading, disruptive technology</p> <p>Establish trusted relationships with customers to ensure we fully understand their strategic direction</p> <p>Monitor and understand our competitors</p> <p>Focus on being responsive to customers and improving the quality and delivery of our products</p> <p>Adapt a flexible approach to different business models</p> <p>Obtaining advice on critical underpinning technologies and developments relevant to our core products from the Technology Advisory Committee</p>

Risk or uncertainty and potential impact	How we manage it
Intellectual Property	
<p>Patent-related threats from third parties seeking to use patents as an alternative way of generating revenue.</p> <p>Infringing others' patents.</p>	<p>Build a portfolio of strategically important patents</p> <p>Regularly screen relevant third party patents to avoid infringement</p> <p>Track industry movements, particularly involving standardisation bodies, to predict and avoid patent risks</p> <p>Build strong relationships with external counsel to enable us to act quickly and defend our position</p> <p>Work closely with customers to respond quickly to potential threats</p> <p>File more patents in key markets like China and India</p>
Macro-Economic Developments	
<p>Changes in global economic conditions can have a significant impact on our partners and customers and therefore may affect the financial performance of the business.</p>	<p>Broad customer, engineering and products base to balance risk</p> <p>Continuous review of market forecasts</p>
Cyber Risk	
<p>Cyber risk causes disruption to the business or loss of IP following a cyber-attack. This could cause interruption of internal or external facing systems, including; interruption to the business caused by a loss of data and reputational damage from a loss of personal or confidential data. The cost or effort to reconstitute data that has been stolen or corrupted and commercial loss from the theft of commercially sensitive data, including IP.</p>	<p>Deploying the latest generation of firewall protection</p> <p>Ongoing improvement in the rigour of authentication processes including wider use of single sign on</p> <p>Improved protection of confidential data on portable computers</p> <p>Improved process of system patching to close security loopholes</p> <p>Use of third party audits</p>
Products Meeting Customer Requirements	
<p>Unable to deliver new products on time or achieve performance that does not meet market requirements in terms of specification, quality or timeliness could result in loss of market share with a corresponding impact on financial performance.</p>	<p>Put in place resources to manage and monitor customer requirements</p> <p>Project management, including using project management systems</p> <p>Checks throughout the project to ensure the expected outcomes including specification and timing will be achieved</p> <p>Roadmap planning process including discussion with key customers</p> <p>Prioritisation of R&D resources to key projects</p>

Risk or uncertainty and potential impact	How we manage it
Foreign Exchange	
Significant amounts of the company's revenue is received in US dollars.	Foreign exchange hedging strategy implemented
Effective Management of People	
In a complex, geographically diverse and fast moving business it is critical that we retain and attract the skills and capabilities needed in sufficient numbers to deliver our objectives and maintain an entrepreneurial and dynamic culture.	<p>Ensure competitive remuneration package is designed to attract, retain and reward employees with ability and experience to execute Group strategy</p> <p>Invest in training</p> <p>Succession planning</p> <p>A clear set of values and underpinning behaviours</p> <p>Increase frequency and quality of communications</p>
Debt Facilities	
Breaches to the banking covenants.	<p>Costs continue to be reduced to reduce cash out flows</p> <p>Businesses are being sold and proceeds will reduce debts</p> <p>Property assets are used as security for the bank facility and could be sold to pay back the facility if required</p> <p>Cash is managed on a daily basis with detailed monitoring</p> <p>Close relationship with the bank to ensure they understand our strategy and mitigating actions being taken to reduce debt</p>

By order of the board


A. Heath
Director

19 December 2017

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 April 2017.

Research and development

The company spent £69,574,000 (2016: £80,942,000) on research and development and advanced technology projects.

Donations

During the period, the company made donations for charitable purposes of £nil (2016: £2,000). There were no political donations during the period.

Employees

Our people are our most valuable asset and the company recognizes that its reputation and success depends upon their efforts, integrity and commitment. Across the company there is considerable value placed on the involvement of employees in the decision making process. To this end regular departmental meetings are held to discuss strategy and future developments and any significant outputs are then communicated to senior management. This helps the flow of ideas through the company and allows employees to see their contributions are valued.

Employee engagement with the whole company is highly prioritized and there are a number of communication channels in place to help employees develop their knowledge of the business. These channels include regular presentations by the CEO and CFO to staff covering the company's performance, strategy, vision and operational developments.

There is a quarterly company magazine 'Imagineer' which is used to report events and activities to all employees worldwide covering the opening of new offices around the globe, different departments explaining their specific functions, introducing new starters to the company, recreation activity of employees, the arrival of children of employees and retirement tributes to employees.

Furthermore, employee ownership is encouraged across the company and wider Imagination Group to align the interests of our employees and our shareholders and to enable our employees to share in the success of the company. The company runs an employee share plan under which all employees globally receive share awards on an annual basis. There is no qualifying period and no performance conditions on share awards below the Executive Management Board (EMB) and Board.

Creditor payment policy

It is company policy to agree payment terms with suppliers when negotiating contracts or transactions. The company ensures that, subject to any necessary variations which may result from supplier-related problems, the agreed payment terms are adhered to. The number of day's billings from suppliers outstanding to the company at 30 April 2017 was 53 days (2016: 29 days).

Directors' report (continued)

Directors

The directors who held office during the period were as follows:

A Heath
G Millward
P Hill (Appointed 3 January 2017, resigned 11 January 2017)

Post balance sheet events

On 22 June 2017, the board of Imagination Technologies Plc announced it had received interest from a number of parties for a potential acquisition of the whole Group. The Board therefore decided to initiate a formal sale process for the company and is engaged in preliminary discussions with potential bidders. The Group's MIPS Business Unit was acquired by Tallwood MIPS Inc. on 25 October 2017 for cash consideration of \$65m. The remaining Group, of which Imagination Technologies Limited is the largest component, was acquired by CBFI Investment Limited on the 2 November 2017.

Further details are provided in Note 22, including information on the sale of the company's freehold property, its interest in IMG Works and repayment of the company's revolving credit facility ("RCF").

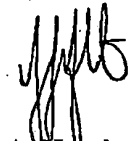
Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, KPMG LLP will be deemed to be reappointed and will therefore continue in office.

By order of the Board



A. Heath
Director

19 December 2017

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the member of Imagination Technologies Limited

We have audited the financial statements of Imagination Technologies Limited for the year ended 30 April 2017 set out on pages 14 to 43. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern, in particular the substantial achievement of forecasts (including cash collection from customers and the timing of receipts from contingent consideration and tax credits) and the availability of additional facilities as may be needed if forecasts are not substantially achieved. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty, which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

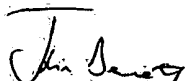
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



John Bennett (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

19 December 2017

Profit and loss account
For the year ended 30th April 2017

		Continuing operations	Discontinued operations	Total	Continuing Operations (restated)	Discontinued Operations (restated)	Total
	Notes	2017 £000	2017 £000	£000	2016 £000	2016 £000	£000
Turnover	1, 2	124,167	6,478	130,645	102,095	19,281	121,376
Operating expenses	3	(121,127)	(15,325)	(136,452)	(127,052)	(64,074)	(191,126)
Operating profit / (loss)		3,040	(8,847)	(5,807)	(24,957)	(44,793)	(69,750)
Financial expense	6	(2,709)	-	(2,709)	(398)	-	(398)
Profit / (Loss) before taxation		331	(8,847)	(8,516)	(25,355)	(44,793)	(70,148)
Taxation (charge) / credit on loss / profit	7	(15,366)	(775)	(16,141)	4,812	2,899	7,711
Loss for financial year		(15,035)	(9,622)	(24,657)	(20,543)	(41,894)	(62,437)

There is no difference between the total reported result for the period and that on a historical cost basis.
The notes on pages 18 to 43 form part of these financial statements.

Statement of comprehensive income
For the year ended 30 April 2017

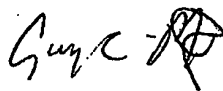
	Year to 30 April 2017 £'000	Year to 30 April 2016 £'000
Loss for the financial year	(24,657)	(62,437)
<i>Other comprehensive income</i>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Change in fair value of assets classified as available for sale	<u>580</u>	<u>(499)</u>
Other comprehensive income / (loss) for the year, net of income tax	<u>580</u>	<u>(499)</u>
Total comprehensive loss for the year	<u>(24,077)</u>	<u>(62,936)</u>

The notes on pages 18 to 43 form part of these financial statements.

Balance sheet
As at 30 April 2017

	Note	As at 30 April 2017 £'000	As at 30 April 2016 £'000
Non-current assets			
Intangible assets	8	12,135	15,493
Tangible assets	9	61,571	66,554
Investments in subsidiary undertakings	11	124	178
Trade investments	12	5,097	4,626
Investment property	10	-	5,475
Deferred tax	19	-	10,326
		<u>78,927</u>	<u>102,652</u>
Current assets			
Stock and work in progress	13	76	68
Assets held for sale	18	-	5,255
Debtors (including £nil (2016: £3,053,000) due after more than one year)	14	49,401	46,742
Cash at bank and in hand		<u>13,573</u>	<u>2,834</u>
		<u>63,050</u>	<u>54,899</u>
Creditors: amounts falling due within one year	15,18	<u>(69,546)</u>	<u>(92,950)</u>
Provisions (including £168,000 (2016: £1,192,000) due after more than one year)	17	<u>(7,044)</u>	<u>(9,913)</u>
Net current liabilities		<u>(13,540)</u>	<u>(47,964)</u>
Total assets less current liabilities		<u>65,387</u>	<u>54,688</u>
Creditors: amounts falling due after more than one year	16	<u>(27,248)</u>	<u>(5,004)</u>
Net assets		<u>38,139</u>	<u>49,684</u>
Capital and reserves			
Called up share capital	20	14,161	14,161
Revaluation reserve		1,088	508
Retained earnings		<u>22,890</u>	<u>35,015</u>
Total Shareholders' funds		<u>38,139</u>	<u>49,684</u>

The notes on pages 18 to 43 form part of these financial statements. These financial statements were approved by the board of directors on 14 December 2017 and were signed on its behalf by:

G. Millward 
Director
Registered Number 1306335

Statement of changes in equity
For the year ended 30 April 2017

	Share capital £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2015	14,161	1,007	90,190	105,358
Loss for the financial year	—	—	(62,437)	(62,437)
Other comprehensive income	—	(499)	—	(499)
<i>Transactions with owners, recorded directly in equity</i>				
Share-based remuneration	—	—	7,750	7,750
Tax charge in respect of share-based incentives	—	—	(488)	(488)
At 30 April 2016	14,161	508	35,015	49,684
At 1 May 2016	14,161	508	35,015	49,684
Loss for the financial year	—	—	(24,657)	(24,657)
Other comprehensive income	—	580	—	580
<i>Transactions with owners, recorded directly in equity</i>				
Share-based remuneration	—	—	12,682	12,682
Tax charge in respect of share-based incentives	—	—	(150)	(150)
At 30 April 2017	14,161	1,088	22,890	38,139

The notes on pages 18 to 43 form part of these financial statements.

Notes (forming part of the financial statements)

1. Accounting Policies

Basis of preparation

Imagination Technologies Limited is a company incorporated in the UK under the Companies Act. The address of the registered office is given in note 24. The nature of the company's operations and its principal activities are set out in the strategic report on pages 3 to 8.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The company is a subsidiary undertaking of Imagination Technologies Group Limited, which is the parent company whose 30 April 2017 financial statements the results of Imagination Technologies Limited are consolidated. The ultimate parent company is China Venture Capital Fund Corporation Limited.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Imagination Technologies Group Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the company in the current and prior periods including the comparative period reconciliation for goodwill; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

1. Accounting Policies (continued)

Measurement convention

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the good and services. The principal accounting policies adopted are set out below.

Going concern

The company is a subsidiary of Imagination Technologies Plc ("IMG" or "the Group") that was acquired by CBF Investment Limited, a vehicle controlled by Canyon Bridge LLC. The consolidated financial statements of IMG for the year ended 30 April 2017 have been reported on by the company's auditors and delivered to the Registrar of Companies on 21 September 2017. The auditors' report was unqualified but did include a reference by way of emphasis without qualifying their report on the ability of the Group to continue as a going concern.

Following the acquisition of IMG, the Directors have assessed the ability of the company to continue as a going concern. In making their assessment, the following facts are relevant:

- As disclosed in the Financial Statements of IMG, on 3 April 2017, the Group announced that Apple Inc. ("Apple") has asserted that it will no longer use the Group's intellectual property in its new products. Apple revenues constitute 45.2% of the Group's revenue from continuing activities for the year ended 30 April 2017. The Group remains in dispute with Apple and has reserved its rights.
- On 25 October 2017, IMG sold its MIPS business for a total consideration of \$65m. The consideration is payable in three tranches, with \$20m being received on completion and a further \$20m and \$25m falling due for payment on 31 January 2018 and 25 April 2018 respectively.
- On 31 May 2017, the company disposed of its interest in IMG Works, the results of which are disclosed in these financial statements as a discontinued operation, for a nominal sum.
- On 9 November 2017, the company completed the sale and leaseback of some of its freehold properties; a total of £32.5m of cash was received on completion.
- The proceeds from the MIPS disposal and the sale and leaseback transaction were used to repay the Group's outstanding bank debt (including £23.75m shown in Note 16 of these financial statements) and, at the date of this report, the Group has no external bank loans.
- The Group continues to have a £3m working capital facility which remains undrawn at the date of this report and if it is drawn is repayable on demand.

The Directors have reviewed the Group's cash flow forecasts for the period to 30 November 2018 ("the Plan"), which includes the company and its subsidiaries, in order to consider the ability of the company to realise its assets and discharge its liabilities as they fall due.

1. Accounting Policies (continued)

Various scenarios within the plan have been considered to test the Group's resilience against operational risks. In particular, the Directors have considered the impact of a:

- Delay in the receipt of remaining consideration payments in relation to MIPS;
- Delays in the receipt of research and development tax credits ("RDEC") that are expected to be received in January 2018; and
- Delays in cash receipts from significant customers.

Based on their assessment of the plan, the directors' believe that the Group, and therefore the company, will continue to have sufficient financial resources to meet their obligations as they fall due and accordingly have formed a judgement that is appropriate to prepare the financial statements on a going concern basis. Accordingly, these financial statements do not include any adjustments that would result if the going concern basis of the preparation is inappropriate.

However, there can be no guarantee that the receipts will come in line with the forecast timing and the Directors consider that if the timing of the above receipts is delayed, the company would need to seek additional funding to continue to meet their obligations as they fall due. While the Directors have received assurances that additional funding will be provided by Canyon Bridge LLC should it be required, there are no formal arrangements in place at the date of this report. As a result, due to the risk of delay of the above receipts, this represents a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern such that the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Turnover

Turnover comprises:-

1. the value of licence fees, development income, maintenance and royalties from licence and development agreements;
2. revenues from the sale of products to support technology licensees; and
3. revenues from the sale of systems products utilising the company's technology to third parties

Revenue is recognised to the extent that the economic benefits associated with the transaction will flow into the company. Revenue from standard licences is recognised on delivery to the customer. Revenue on licence agreements for products which are either not finished or which need to be modified to meet specific customer requirements is recognised on a percentage-to-completion basis over the period from starting development of the product to delivery. The percentage-to-completion is measured by monitoring progress compared with the total estimated project requirement. Progress is measured by an assessment of performance against key development milestones. Revenue associated with rights in licence agreements to unspecified current and future products is recognised on a straight-line basis over the term of the arrangement.

Revenue on development work is recognised on a percentage-to-completion basis over the period from the start of the development to delivery. Development work is normally invoiced as milestones are achieved. Where invoicing milestones on licence or development arrangements are such that the proportion of work performed is greater than the proportion of the total contract value which has been invoiced, the company evaluates whether it has obtained, through its performance to date, the right to the un-invoiced consideration and therefore whether revenue should be recognised. In particular it considers whether there is sufficient certainty that the invoice will be raised in the expected timeframe,

1. Accounting Policies (continued)

Turnover (continued)

that the customer considers that the company's contractual obligations have been, or will be, fulfilled and that only those costs budgeted to be incurred will be incurred. Where the company considers that there is insufficient evidence that it is probable that the economic benefits associated with the transaction will flow to the company, taking into account these criteria, revenue is not recognised until there is sufficient evidence that it is probable that the economic benefit associated with the transaction will flow into the company.

Where an agreement involves several components, the total fee is allocated to individual components based on the fair value of the components. The fair value is assessed by reference to prices regularly charged for the components when sold separately, or if this cannot be used, then other factors may be considered, such as the excess of similar agreements over the charges of separately identifiable components. If the fair value of a component is not determinable, then the total fee is deferred until the fair value is determinable, or the component has been delivered to the customer. Where, in effect, two or more components of an agreement are linked and fair values cannot be allocated to the individual components, the revenue recognition criteria are applied to the components as if they were a single component.

Revenue for maintenance is recognised on a straight-line basis over the period for which maintenance is contractually agreed with the licensee.

The excess of licence fees, development income and maintenance invoiced over revenue recognised is recorded as deferred income.

Royalty revenues are earned on the sale by licensees of products containing the company's technology. Revenues are recognised as they are earned to the extent that the company has sufficient evidence of sales of products containing the company's technology by licensees. Notification is generally received in the quarter following the shipment of the customer's products.

Revenues from the sale of goods are recognized upon delivery.

Revenue is accounted for net of VAT, discounts and returns. Returns are recognized at the point at which the company has adequate knowledge that products are likely to be returned by a customer.

The above revenue recognition policy is applied consistently irrespective of whether or not the consideration received is in the form of cash or non-cash (for example equity).

Tangible fixed assets

All tangible assets are stated at historical cost less accumulated depreciation less accumulated impairment losses to their estimated residual values over the period of their estimated useful economic lives:

1. Accounting Policies (continued)

Tangible fixed assets (continued)

Useful lives and residual values are reviewed at the end of every reporting period, and the depreciation rates applied are:

Freehold land	No depreciation
Freehold buildings	50 years
Leasehold improvements	Equally over the period of the lease
Plant and equipment	3 to 10 years
Motor vehicles	4 years

Research and development costs

Costs of basic and applied research, and all development costs, are recognised in the profit or loss in the period in which they are incurred by the company.

Intellectual property rights and patents

Intangible assets are stated at cost of acquisition and amortised on a straight line basis over their estimated useful economic lives. The residual values of intangible assets are assumed to be nil. Useful economic lives are reviewed on an annual basis. The amortization rates applied are:

Developed technology	5 to 10 years
Customer relationships	10 years
Trade names	15 years
In process R&D	5 years once complete
Software, patents & trademarks	2 to 5 years

Stock and work in progress

Stock is valued at the lower of cost and net realisable value. Finished goods include direct costs and attributable overheads based on the normal level of activity.

Work in progress is valued at the cost of work completed on contracts in hand, net of provisions.

Pension Scheme

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined-contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Investment properties

Investment properties are freehold and leasehold properties held to earn rental income, for capital appreciation and/or for undetermined future use. They are stated at cost less accumulated depreciation and less accumulated impairment losses. Indicators of impairment may arise from market evidence, as assessed by independent qualified external valuers. Any surplus or deficit arising is recognised in the statement of profit and loss for the period.

Investment properties are not depreciated.

1. Accounting Policies (continued)

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation arising from past events, it is probable cash will be paid to settle it and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows by a rate

that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the statement of profit and loss. The value of the provision is determined based on assumptions and estimates in relation to the amount and timing of actual cash flows which are dependent on future events.

Share-based payment transactions

The share option programmes and the share incentive arrangements allow company employees to acquire shares of Imagination Technologies Group Limited. The fair value of Share Incentives is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the Share

Incentives. The fair value of the Share Incentives granted is measured using the Black-Scholes or Monte Carlo Simulation models. The amount recognised as an expense is adjusted to reflect the actual number of Share Incentives that vest except where forfeiture is due only to market-based performance not meeting the threshold for vesting.

Where the parent company, Imagination Technologies Group Limited, grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity. The subsidiary company,

Imagination Technologies Limited, recognises the share-based payment charge relating to its employees as a charge to the profit and loss account in the period with a corresponding credit being recognised as a capital contribution directly in equity. No reimbursement is made to Imagination Technologies Group Limited by Imagination Technologies Limited in relation to these share-based payments.

Current tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

1. Accounting Policies (continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the statement of profit and loss, except when it relates to items charged or credited in total recognised gains and losses, in which case the deferred tax is also dealt with in total recognised gains and losses. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Foreign exchange

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange gains and losses are taken to the profit and loss account.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit and loss on a straight-line basis over the period of the lease. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

1. Accounting Policies (continued)

Finance Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the company. For property leases, the land and building elements are treated separately to determine the appropriate lease classification. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit and loss on a straight-line basis over the period of the lease.

Assets funded through finance leases are capitalised either as property, plant and equipment, or intangible assets, as appropriate, and are depreciated/amortised over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the statement of profit and loss on an effective interest rate basis.

Trade investments

Trade investments are classified as available for sale and are stated on the balance sheet at the fair value at the balance sheet date, with any gain or loss being recognized directly in the statement of comprehensive income. Impairment losses and gains or losses on initial recognition are recognized in the statement of profit and loss. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit and loss account. Where there has been more than one investment made in the same company, each tranche is assessed in isolation to calculate the movements in fair value.

Impairment analysis is performed with reference to the initial cost or fair value of each shareholding.

The fair value of unquoted investments is made by reference to recent funding rounds or, in the absence of the former, to a discounted cash-flow forecast.

The company is exposed to equity securities price risk on available for sale financial assets. As there can be no guarantee that there will be a future market for securities or that the value of such investments will rise, the directors evaluate each investment opportunity on its merits before committing the company's funds. The directors review holdings in such companies on a regular basis to determine whether continued. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available for sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognized directly in equity.

1. Accounting Policies (continued)

Impairment of tangible and intangible assets

Assets that are subject to amortization or depreciation are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, estimates are made of the cashflows of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, estimated future cashflows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying value of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognized immediately in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses in respect of goodwill are not reversed.

Cash and equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of less than or equal to three months.

Loans and receivables

Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Derivative financial instruments

Currency exchange contracts are utilised to manage the exchange risk on actual transactions related to accounts receivable, denominated in a currency other than the functional currency of the business. These currency exchange contracts do not subject the Group to risk from exchange rate movements because the gains and losses on such contracts offset losses and gains, respectively, on the transactions, being hedged. The currency exchange contracts and related accounts receivable are recorded at fair value at each period end. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of foreign currency options is based upon valuations performed by management and the respective banks holding the currency instruments. All recognised gains and losses resulting from the settlement of the contracts are recorded within general and administrative expenses in the profit and loss account. The Group does not enter into currency exchange contracts for the purpose of hedging anticipated transactions.

1. Accounting Policies (continued)

Significant accounting judgements and estimates

In applying the accounting policies described above, management has made the following judgements and estimates that have a significant impact on the amounts recognised in the financial statements:

Revenue recognition

Judgement is involved in determining how many components are in a licence agreement and how to allocate fair value to the components. Revenue recognition on undelivered components is determined by percentage of completion. The company has made estimates on the percentage-to-completion for licensing and development work which affect the amount of revenue recognised in the period. These estimates involve the company assessing the estimated resource and time required to complete development projects. Please refer to the final paragraph of the Revenue accounting policy disclosed above.

Investments

The company has stated trade investments at fair value. Please refer to "Trade investments" above for management's application of accounting for trade investments.

Share based payments

The fair value of the share incentives is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the incentives. The fair value of the share incentives is measured using the Black-Scholes or Monte Carlo Simulation models which take into account the terms and conditions upon which the award was made. In determining the appropriate expense, the company has made estimates on the likelihood that internal performance targets will be achieved and on the number of employees that will be employed on vesting.

Taxation

A deferred tax asset (note 7) is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. The company has made estimates on the likelihood that future taxable profit will utilise these tax losses.

Recoverability of debtors

The company regularly reviews any outstanding debtors and monitors the aging profile to determine whether any further action is required by management. There is an element of judgement in determining whether debts will eventually be paid, but where there is significant uncertainty the debt is specifically provided for in full.

Estimation of restructuring costs and onerous lease provisions

In determining the estimated provision for restructuring costs, the company has made certain estimates regarding the total cost of staff redundancies announced at the balance sheet date.

1. Accounting Policies (continued)

In determining the estimated provision for onerous property leases, the company has made certain estimates regarding the likelihood of future cash inflows from subtenants. These amounts have been netted off against the contractual lease rental payments.

Valuation of inventory

Inventory comprises raw components, work in progress and finished goods. The company monitors the level of inventory across the business and specifically slow moving finished goods. Management makes estimates to ensure adequate provisions are in place to ensure the value of inventory recorded on the balance sheet is not over stated in accordance with IAS 2.

2. Revenue and segmental analysis

Revenue is segmented by geographical area of sales as follows:

	2017	2016 (restated)
	<u>£'000</u>	<u>£'000</u>
USA	90,042	84,103
Asia	18,214	21,396
Rest of Europe	9,944	(3,374)
United Kingdom	2,759	1,079
Rest of the world	2,421	(1,265)
Rest of North America	787	156
	<u>124,167</u>	<u>102,095</u>
Discontinuing	<u>6,478</u>	<u>19,281</u>
	<u>130,645</u>	<u>121,376</u>

Revenue is segmented by type area of sales as follows:

	Continuing Operations	Discontinued Operations	Total	Continuing Operations (restated)	Discontinued Operations (restated)	Total
	2017	2017	2017	2016	2016	2016
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Pure	-	6,059	6,059	-	18,819	18,819
Licencing	29,574	284	29,858	13,661	(49)	13,614
Royalties	82,955	-	82,955	79,207	479	79,686
Other	131	135	266	40	30	70
Interco sales	11,507	-	11,507	9,187	-	9,187
Total						
Turnover	124,167	6,478	130,645	102,095	19,281	121,376

The restatements in the prior year comparatives in this note and on the face of the financial statements relate to the classification of IMG Works as a discontinued operation.

3. Operating loss

	2017 <u>£'000</u>	2016 <u>£'000</u>
Operating loss is stated after charging:		
Depreciation and amortisation of owned tangible and intangible assets	9,467	11,789
Operating lease rentals:		
Property	529	1,169
Other operating leases	7,750	9,470
Net foreign exchange loss	(1,268)	(2,104)
 Auditor's remuneration:		
Audit of these financial statements	181	213
Other assurance services	-	-

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent, Imagination Technologies Group Limited.

4. Directors' Emoluments

	Total 2017 £'000	Highest paid director 2017 £'000	Total 2016 £'000	Highest paid director 2016 £'000
Directors' remuneration	1,471	984	761	347
Company contributions to money purchase pension plans	55	35	61	31
Compensation for loss of office	-	-	131	131
	<u>1,526</u>	<u>1,019</u>	<u>953</u>	<u>509</u>

Number of directors

	2017	2016
--	------	------

Retirement benefits are accruing to the following number of directors under:

Money purchase schemes	2	4
------------------------	---	---

The number of directors who exercised share options was

The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was

-	-	-1	-
-	-	1	-

5. Staff numbers and costs

The average number of persons employed by the company (including directors) was:

	Number of employees	
	2017	2016
Research and development	633	888
Production	31	19
Administration	6	134
Marketing	134	69
	<u>804</u>	<u>1,110</u>

The aggregate payroll costs of these persons were:

	2017	2016
	£'000	£'000
Wages and salaries	42,982	44,863
Share-based payments	12,682	7,750
Social security costs	5,433	4,939
Pension costs	<u>2,085</u>	<u>2,457</u>
	<u>63,182</u>	<u>60,009</u>

No share appreciation rights charge has been recognised in the period (2016: £nil)

6. Financial expense

	2017	2016
	£'000	£'000
Interest payable on bank loans and overdrafts	(724)	(346)
FX loss on finance leases	(979)	(52)
Movement in fair value of forward contracts	<u>(1,006)</u>	-
	<u>(2,709)</u>	<u>(398)</u>

All interest payable and similar charges relates to interest payable and similar on bank loans and overdrafts. No interest was payable to company undertakings.

7. Taxation

	2017 £'000	2016 £'000
Analysis of tax charge in the year		
Current tax charge		
UK corporation tax	4,532	202
Foreign tax	1,432	1,273
Total current tax charge	5,964	1,475
Deferred tax		
Origination and reversal of temporary differences	(190)	(10,544)
Write off of unsupportable deferred tax balances	9,910	-
Effect of changes in tax rates on deferred tax balances	576	1,200
Adjustments in respect of prior periods	(119)	158
Total deferred tax charge / (credit)	10,177	(9,186)
Total income tax charge / (credit)	16,141	(7,711)

The total tax charge for the year of £16,141,000 (2016: £7,711,000 tax credit) is higher (2016: lower) than the standard rate of corporation tax in the UK of 19.92% (2016: 20.00%). The difference is explained below:

	2017 £'000	2016 £'000 (restated)
Loss before taxation	(8,516)	(70,148)
Notional tax (credit) / charge at UK standard rate of 19.92% (2016: 20.00%)	(1,696)	(14,030)
Tax effect of:		
Permanent differences	972	4,060
Effect of changes in tax rates	-	1,200
Group relief	208	-
Derecognition of tax assets	15,905	-
Adjustments in respect of prior periods	(448)	158
Effect of R&D tax relief	(232)	-
Withholding tax	1,432	901
Total income tax charge / (credit)	16,141	(7,711)
Tax on items charged / (credited) to equity:		
Deferred tax	149	690
Current tax	-	(202)

7. Taxation (continued)

Current tax

The company receives significant government tax incentives including Research and Development Expenditure credits ("RDEC") which is shown as an 'above the line' relief. This has the impact of a 'credit' being recorded in operating expenditure of £7,397,000 (2016: £4,751,000) which is then taxed at the prevailing UK corporation tax rate. If the company makes a taxable loss for the year, losses generated by the RDEC claim can be reclaimed in cash from HMRC.

The principal element of the deferred tax charge recorded against equity relates to the reversal of previously recognised deferred tax assets which were credited to equity. The reversal of the asset occurs predominantly as a result of the fall in potential future tax deductions due to the reduction in the company's share price during the year.

Factors affecting future tax charge

The Finance Act 2017 reduced the rate of Corporation Tax from 1 April 2017 to 19% and by a further 2% to 17% from 1 April 2020. These changes have been substantively enacted at the balance sheet date. In addition, the Finance Act 2012 introduced the UK patent box regime which provides for an effective tax rate of 10% on certain UK profits from 1 April 2013 (phased in over 5 years). These changes have been substantively enacted at the balance sheet date and consequently are reflected in these financial statements. The Group has not made an election in to the UK Patent Box regime as at 30 April 2017, nor do the Directors consider it will be beneficial to do so in the short term.

8. Intangible fixed assets

	Developed Technology		Software, Patents & Trademarks		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At beginning of year	21,905	21,905	13,473	9,764	35,378	31,669
Additions	-	-	2,179	3,847	2,179	3,847
Disposals	(4,030)	-	(18)	-	(4,048)	-
Transfer	-	-	-	(138)	-	(138)
At 30 April	<u>17,875</u>	<u>21,905</u>	<u>15,634</u>	<u>13,473</u>	<u>33,509</u>	<u>35,378</u>
Amortisation						
At beginning of year	11,776	5,111	8,109	6,224	19,885	11,335
Charged in year	3,250	4,381	751	1,424	4,001	5,805
Disposals	(4,030)	-	-	-	(4,030)	-
Transfer	-	-	-	(20)	-	(20)
Impairment	<u>1,518</u>	<u>2,284</u>	<u>-</u>	<u>481</u>	<u>1,518</u>	<u>2,765</u>
At 30 April	<u>12,514</u>	<u>11,776</u>	<u>8,860</u>	<u>8,109</u>	<u>21,374</u>	<u>19,885</u>
Net Book Value						
At 30 April	<u>5,361</u>	<u>10,129</u>	<u>6,774</u>	<u>5,364</u>	<u>12,135</u>	<u>15,493</u>

9. Tangible fixed assets

	Freehold Land and Buildings	Leasehold improvements	Plant and equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 May 2016	52,178	1,112	44,261	97,551
Additions	47	17	1,363	1,427
Disposals	(14)	(109)	(1,805)	(1,928)
Transfer to Assets held for sale	-	-	-	-
At 30 April 2017	<u>52,211</u>	<u>1,020</u>	<u>43,819</u>	<u>97,050</u>
Depreciation				
At 1 May 2016	2,617	441	27,939	30,997
Charge for year	883	183	4,400	5,466
Disposals	(13)	(108)	(863)	(984)
Transfer to Assets held for sale	-	-	-	-
At 30 April 2017	<u>3,487</u>	<u>516</u>	<u>31,476</u>	<u>35,479</u>
Net book value				
At 30 April 2017	<u>48,724</u>	<u>504</u>	<u>12,343</u>	<u>61,571</u>
At 30 April 2016	<u>49,561</u>	<u>670</u>	<u>16,323</u>	<u>66,554</u>

9. Tangible fixed assets (continued)

	2017	2016
	<u>£'000</u>	<u>£'000</u>
The net book value of freehold land and buildings comprises:		
Land	7,422	9,349
Buildings	<u>41,302</u>	<u>40,212</u>
	<u>48,724</u>	<u>49,561</u>

Contained within Plant and Equipment is CAD equipment with a net book value of £5,446,000 (2016: £6,695,000) which is deemed to have been acquired under a finance lease.

After the balance sheet date, some freehold properties were sold. Please see note 22 for further details.

10. Investment Property

	2017	2016
	<u>£'000</u>	<u>£'000</u>
Cost basis		
At 1 May	5,475	-
Transfer from property, plant and equipment during the year	-	11,933
Impairment during the year	(975)	(6,458)
Disposed of during the year	<u>(4,500)</u>	<u>-</u>
At 30 April	-	5,475

During the year, the company's investment property was disposed of for consideration of £4,500,000 in January 2017. An impairment was recognized on October 2016 to reflect the fact that, at that date, the recoverable amount of the asset was less than its previous carrying value.

The recoverable amount of the company's investment property at 30 April 2016, and the resulting impairment during that year, was arrived at on the basis of a valuation carried out in February 2016 by independent valuers not connected with the company. The valuation conforms to International Valuation Standards. The impairment was determined using the investment method of valuation, this showed that the recoverable amount was less than the cost and accordingly, an impairment was recognised.

The investment property was measured at cost less accumulated depreciation and less accumulated impairment losses in the balance sheet.

11. Investments

	2017	2016
	<u>£'000</u>	<u>£'000</u>
Shares in subsidiary undertakings		
Net book value at beginning of year	178	178
Additions	102	-
Disposals	<u>(156)</u>	<u>-</u>
Net book value of subsidiary undertakings at 30 April	<u>124</u>	<u>178</u>

11. Investments (continued)

Shares in subsidiary undertakings

Details of the company's subsidiary undertakings, which are involved in the licensing of the design of multimedia technology and the sale of multimedia products, are as follows:

Name of subsidiary undertaking	Address of registered office	Class of shares	Ownership 2017	Ownership 2016
Imagination Technologies GmbH	Hansenweg 54, 60599 Frankfurt am Main, Germany	Ordinary	100%	100%
Imagination Technologies India Private Limited	1st, 2nd and 3rd floor, Bhalerao Towers, Plot No. 36, CTS No. 1669-1670, Shivajinagar, Pune 411005 India	Ordinary	99%	99%
Imagination Technologies Pty Limited	9 Help Street, Level 4, Chatswood, NSW 2067, Australia	Ordinary	100%	100%
Imagination Technologies NZ Limited	Level 2, 1 Market Grove, New Zealand	Ordinary	100%	100%
Mill Link 1 Limited	Imagination House, Home Park Estate Kings Langley, WD4 8LZ, UK	Ordinary	100%	100%
Mill Link 2 Limited	Imagination House, Home Park Estate Kings Langley, WD4 8LZ, UK	Ordinary	100%	100%
Mill Link 3 Limited	Imagination House, Home Park Estate Kings Langley, WD4 8LZ, UK	Ordinary	100%	100%

Disposals during the year were of UK dormant companies.

12. Trade Investments

	2017 £'000	2016 £'000
Current asset investments		
Available for sale financial assets	<u>5,097</u>	<u>4,626</u>

Movement in the carrying value of each of the Group's equity holdings during the period is analysed below.

		Fair value movement during period					Carrying value at 30 April 2017 £'000
% of shares held as at 30 April 2017	Carrying value at 1 May 2016 £'000	Increased holding in investments £'000	Disposal £'000	Statement of profit and loss £'000	Statement of comprehensive income £'000		
7digital Group plc	0.0%	109	—	(108)	(1)	—	—
NetSpeed	3.8%	1,095	—	—	141	—	1,236
Atomos	20.7%	3,422	—	—	439	—	3,861
Ineda *	8.1%	—	—	—	—	—	—
Orca *	9.4%	—	—	—	—	—	—
Blu-Wireless *	6.0%	—	—	—	—	—	—
Total		4,626	—	(108)	(1)	580	5,097

12. Trade Investments (continued)

7digital – The remaining shares that were not able to be sold last financial year due to certain criteria meaning they were being held in trust, were sold as soon as they were out of trust. There was a small loss on disposal of £1,000.

NetSpeed – At the balance sheet date a gain of £141,000 arose due to foreign exchange movements and this has been recognised in the statement of comprehensive income.

Atomos – At the balance sheet date a gain of £439,000 arose due to foreign exchange movements and this has been recognised in the statement of comprehensive income.

* - The carrying value of these trade investments has been fully impaired to £nil.

All gains and impairment charges relating to trade investments classified as available for sale relate to the Corporate business unit.

All Gains and losses for the period recognised in the profit or loss account are included within the 'gain on investments' and 'impairment of investments' rows profit or loss account. All gains or losses for the period recognised in comprehensive income are included within the 'change in fair value of assets classified as available for sale' row within the statement of comprehensive income.

Fair value hierarchy

The company measures the fair value of available for sale investments using the following hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1: Quoted market price (unadjusted) in an active market for an identical financial instrument.

Level 2: Valuation techniques based on observable inputs, such as market prices for similar financial instruments.

Level 3: Valuation techniques using unobservable inputs which can have a significant effect on the instrument's valuation.

The company has applied the above hierarchy to its investments as follows:

7digital – the valuation is based on the quoted share price for 7digital Group plc on AIM. This investment is categorised as Level 1.

NetSpeed – the valuation is based on the purchase price of the investment which was acquired during the year. This investment is categorised as Level 3.

Atomos – the valuation is based on the purchase price of the investment. This investment is categorised as Level 3.

The following table analyses investments, measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised:

12. Trade Investments (continued)

	2017 £'000	2016 £'000
Level 1	–	109
Level 2	–	–
Level 3	5,097	4,517
	<u>5,097</u>	<u>4,626</u>

The following table shows a reconciliation from opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

	£'000
At 30 April 2016	4,517
Investment in the year	–
Total gains and losses:	
In profit or loss account	–
In comprehensive income	580
Disposals	–
At 30 April 2017	<u>5,097</u>

Although the company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

The valuation of NetSpeed and Atomos is based on the purchase price of the investment at the most recent funding rounds and any changes in the intervening period to 30 April 2016 are not materially different to these valuations.

13. Stock and work in progress

	2017 <u>£'000</u>	2016 <u>£'000</u>
Finished goods	<u>76</u>	<u>68</u>

14. Debtors

	2017 £'000	2016 £'000
Trade debtors	10,257	8,055
Prepayments and accrued income	27,242	26,444
Amounts owed by subsidiary undertakings	1,096	-
Other debtors	10,697	12,243
Financial instrument asset – Forward currency contracts	109	-
	<u>49,401</u>	<u>46,742</u>

Other debtors includes £nil relating to an R&D tax credit (2016 £3,053,000) due after more than one year. Intercompany receivables are non-interest bearing and repayable on demand.

15. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	5,407	4,949
Borrowings	-	16,000
Amounts owed to parent undertaking	30,623	29,986
Amounts owed to subsidiary undertakings	2,894	2,080
Amounts owed to fellow subsidiary undertakings	3,859	8,225
Financial instrument liability	-	235
Taxation and social security	1,348	4,161
Accruals and deferred income	<u>25,171</u>	<u>21,002</u>
	<u>69,302</u>	<u>86,638</u>

Intercompany balances are non-interest bearing and repayable on demand.

Contained within accruals and deferred income is £1,571,000 (2016: £1,713,000) due within 12 months relating to liabilities owed under a finance lease. The corresponding asset has been identified and disclosed in note 9.

There are no material differences between any carrying values and fair market values.

16. Creditors: amounts falling due after one year

	2017 £'000	2016 £'000
Revolving credit facility	23,750	-
Other creditors	<u>3,498</u>	<u>5,004</u>
	<u>27,248</u>	<u>5,004</u>

	2017 £'000	2016 £'000
Borrowings to be repaid within one year	-	-
Borrowings to be repaid between one and five years	23,750	-
Borrowings to be repaid over five years	-	-
	<u>23,750</u>	<u>-</u>

16. Creditors: amounts falling due after one year (continued)

At the balance sheet date, the company had access to a Revolving credit facility ("RCF") and had drawn down £23,750,000. The RCF was secured by a debenture dated March 2013 which gave HSBC Bank plc a fixed and floating charge over the assets of the Imagination Technologies Group Limited and its principal subsidiary Imagination Technologies Limited. At the date of this report, the company has repaid the RCF. Please see note 22 for further information.

Contained within other creditors is £3,498,000 (2016: £4,956,000) due after 12 months relating to liabilities owed under a finance lease. The corresponding asset has been identified and disclosed in note 9.

17. Provisions

	Restructuring provision	Onerous revenue contract provision	Other	Total
	£'000	£'000	£'000	£'000
At 1 May 2016	(872)	(6,182)	(2,859)	(9,913)
Additional provision in the year	-	(2,006)	(574)	(2,580)
Releases	-	-	95	95
Utilisation of provision	852	3,520	982	5,354
At 30 April 2017	(20)	(4,668)	(2,356)	(7,044)

Restructuring provisions relate to the expected costs of redundancies that were announced prior to the year end. These will be utilised in the next financial year.

Onerous revenue contracts relate to expected losses on specific customer contracts. The provision is based on the estimated costs to complete exceeding the total contract revenue, and therefore full provision has been made for the expected loss. The company expects all of the remaining deliverables on these contracts to be finalised in the next financial year.

Other provisions include those for specific employee benefits and legal costs.

Also included in other provisions are onerous property provisions that principally relate to onerous lease contracts due to empty office space created by the ongoing review and rationalisation of the company's property portfolio. Utilisation of the provision will be over the anticipated life of the leases or earlier if exited.

The company does not consider that discounting of these amounts to be material based on the expected maturity profile of the provisions.

18. Assets and liabilities held for sale

During the year, the trade and assets of the IMG Works BU were made available for sale. As at 30 April 2017, the relevant assets and liabilities of IMG Works were reclassified as assets and liabilities held for sale.

During the previous year the trade and assets of the Pure and IMG Systems BU's were made available for sale. As at 30 April 2016, the relevant assets and liabilities of these BU's were reclassified as assets and liabilities held for sale.

	2017	2016	
	IMG Works £'000	Pure £'000	IMG Systems £'000
			Total £'000
Assets held for sale			
Intangible assets – software, patents & trademarks	–	118	–
Tangible assets – plant & equipment	–	249	–
Inventories	–	2,613	–
Trade debtors	–	2,202	51
Prepayments	–	22	–
	–	5,204	51
			5,255
Liabilities held for sale			
Trade creditors	–	846	99
Accruals	115	3,922	1,445
Other taxes and social security	129	–	–
	244	4,768	1,544
			6,312

The sale of the Pure BU completed on 30 September 2016 for cash consideration of £2,724,000. The assets and liabilities, and their respective book values, that were disposed of are shown below:

Intangible assets	£107,000
Tangible assets	£177,000
Stock	£3,340,000
Trade debtors & prepayments	£1,860,000
Trade creditors	(£646,000)
Accruals	(£2,849,000)
Book value of net assets disposed	£1,989,000

When the costs of disposal, and other costs relating to the discontinuation of the Pure business are taken into account, the loss on disposal of the Pure Business Unit was £795,000.

19. Deferred taxation

The movement on the deferred tax account is as follows:

	As at 30 April 2016 £'000	Recognised in Statement of profit and loss £'000	Recognised in equity £'000	As at 30 April 2017 £'000
Tax losses	14,586	(10,624)	–	3,962
Share based payments	2,206	(800)	(149)	1,257
Other timing differences	170	(170)	–	–
Capital allowances	(6,683)	1,464	–	(5,219)
Gain on foreign exchange contract	47	(47)	–	–
	<u>10,326</u>	<u>(10,177)</u>	<u>(149)</u>	<u>–</u>

The deferred tax asset reduced by £10,326,000 during the year. Given the uncertainty of future profit generation, and taking into account the factors discussed in note 1, management decided to derecognise the UK deferred tax assets at 30 April 2017. There is £9.7m of unrecognized deferred tax asset on losses as at 30 April 2017.

20. Capital and Reserves

Called up share capital	2017 £'000	2016 £'000
<i>Allotted, called up and fully paid</i>		
14,161,291 (2016: 14,161,291) ordinary shares of £1 each	<u>14,161</u>	<u>14,161</u>

21. Commitments

- (i) Capital commitments at the end of the financial period for which no provision has been made are as follows:-

	2017 £'000	2016 £'000
Authorised and contracted	<u>132</u>	<u>–</u>

- (ii) Total commitments under non-cancellable operating leases are as follows:

	2017		2016	
	Land & Buildings £'000	Other £'000	Land & Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	432	9,635	253	4,625
In two to five years	942	12,177	827	10,851
Over five years	–	336	–	–
	<u>1,374</u>	<u>22,148</u>	<u>1,080</u>	<u>15,476</u>

22. Subsequent event

After the balance sheet date, the company completed a deal which saw the employees of IMG Works and the System-on-Chip development function they provide sold to Mill Link 1 Limited for consideration of £1.

Mill Link 1 Limited was a wholly owned subsidiary of Imagination Technologies Limited. As part of the IMG Works transaction, the entire share capital of Mill Link 1 Limited was acquired by Sondrel (Holdings) Limited for consideration of £1.

When the costs of disposal, and other costs relating to the discontinuation of the IMG Works business are taken into account, the loss on disposal of the IMG Works Business Unit was £220,000.

On 22 June 2017, the board announced it had received interest from a number of parties for a potential acquisition of the whole Group. The Board therefore decided to initiate a formal sale process for the company and is engaged in preliminary discussions with potential bidders. The MIPS Business Unit was acquired by Tallwood MIPS Inc. on 25 October 2017 for cash consideration of \$65m. The remaining Group, of which Imagination Technologies Limited is the largest component, was acquired by CBFI Investment Limited on the 2 November 2017. See note 24 for details of the ultimate controlling entity.

On 9 November 2017, the company sold some of its UK properties for £32.5m. The cash was received in full on completion.

On 9 November 2017, the Imagination Group repaid its term loan and draw down of the Revolving credit facility to become debt free. Only the revolving facility is a liability of the company at the balance sheet date. The Revolving credit facility was repaid in full, £23.75m.

23. Related parties

	2017 £'000	2016 £'000
Statement of profit and loss		
Revenue – Ineda	–	175
Revenue – Atomos	446	(1,527)
Revenue – Toumaz*	–	1,501
Operating expense – Orca	(259)	–
Operating expense – Netspeed	(552)	(64)
	<u>(365)</u>	<u>85</u>
Balance sheet		
Trade Debtors - Atomos	193	–
Trade Debtors – Toumaz*	–	940
Trade Creditors – Netspeed	(116)	–
	<u>77</u>	<u>940</u>

The above entities are deemed to be related parties under IAS24 due to the shareholding that Imagination Technologies Limited has in these entities (see note 12).

* Following the disposal Imagination's final shareholding in Toumaz during 2016, this entity ceased to be a related party.

24. Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of Imagination Technologies Group Limited, which is the parent company whose 30 April 2017 financial statements the results of Imagination Technologies Limited are consolidated. No other group financial statements include the results of the company. The consolidated financial statements of this Group are available to the public from Imagination House, Home Park Industrial Estate, Station Road, King Langley, WD4 8LZ.

The ultimate parent company at the date of this report is China Venture Capital Fund Corporation Limited, a company incorporated in China.