



Imagination Technologies Group plc
Annual Report and Accounts for the year ending 30 April 2009

Company registration number 2920061



Directors' Report

The Directors submit their annual report and audited financial statements for the year ended 30 April 2009.

Principal Activities

The principal activities of the Group are the design, development and marketing of multimedia technology, and products incorporating this technology.

Review of Business

A balanced and understandable assessment of the Company's position and future prospects has been included in the Chief Executive's Review. This incorporates any significant events since the year end. Further details are included in pages 3 to 11 of the annual report and financial statements.

The results of the Group for the year ended 30 April 2009 are set out in detail in the Consolidated Income Statement on page 55.

The Directors do not propose the payment of a dividend (2008: £nil).

The key performance indicators used in the business are summarised below. The performance of the business in the terms of these indicators is considered in the Chief Executive's Review in pages 3 to 11 of the annual report.

	Year to 30 April 2009	13 months to 30 April 2008	%
Technology business			
New license Agreements	12	13	-8%
Licensing Revenue	£22.9m	£19.0m	+21%
Partner Chip Design Wins	78	67	+16%
Partner Chips Shipping	29	26	+12%
Partner Chips Shipped (units)	86m	47m	+83%
Royalty Revenue	£14.0m	£10.9m	+29%
PURE Digital business			
Revenue	£27.2m	£30.1m	-10%
Operating (Loss) / Profit	(£3.0m)	£1.6m	-290%
Group			
Revenue	£64.1m	£60.0m	+7%
Gross Profit	£42.3m	£38.6m	+10%
Adjusted Profit before taxation*	£5.0m	£3.2m	+56%
Profit before taxation	£2.7m	£1.9m	+45%
Net cash and cash equivalents	£14.6m	£7.2m	+101%

* Adjusted before share based remuneration expenses of £1.8m (2008: £1.3m) and investment write down of £0.5m (2008: nil).

The Group moved the end of the 2007/08 financial year to 30 April with the financial period being extended to 13 months. Therefore in the Directors' Report, the results for the 12 month period to 30 April 2009 are compared to those for the 13 months to 30 April 2008.

Principal Risks and Uncertainties

There are a number of risks and uncertainties which could impact the Group's performance. The Group has a risk management structure in place which is designed to identify, manage and mitigate business risk. The relevant structures are more fully described in the Group's internal control and risk management procedures in the Corporate Governance report on page 48.

The Group has experienced, and may in the future experience, fluctuations in the results of its operations. There are a number of factors that can affect the results. For the Technology business, these include the timing of new license agreements with partners, the achievement of development project milestones and the timing and volume of products incorporating the Group's technology shipped by our partners. The Group seeks to reduce this risk by both broadening the number of partners who utilize the Group's technology as well as widening the number of market segments that are targeted by the Group's partners. For the Group's PURE Digital business, these factors also include the rate of adoption of digital radio technologies world-wide and the continuation of the supply of products from Chinese manufacturers. The Group has mitigated the latter by spreading the manufacture of the Group's products across a number of manufacturers in order to reduce the reliance on any one manufacturer.

The Group operates in fast moving competitive marketplaces characterised by rapid changes in technology. The Group's result will be impacted by the introduction of new technologies and products by the Group and by the Group's competitors as they respond to these changes in technology. In order to mitigate risk, the Group has detailed dialogue with existing partners, as well as systems companies and industry bodies, in order to align its future products with advances in technology and market requirements.

As a technology business, the development and ownership of intellectual property is fundamental to the Group's performance. Whilst the Group relies on patent, copyright, trademark and other intellectual property laws to establish and protect its proprietary rights, it cannot be certain that its proprietary rights will not be challenged, invalidated, circumvented or used without the Group's authorisation. The Group mitigates the risk by filing patents and trademarks as appropriate to protect its intellectual property and through monitoring technologies promoted by third parties.

The Group transacts license and development agreements with customers and purchases of products for PURE Digital primarily in US dollars and, therefore, the Group's earnings are exposed to fluctuations in foreign exchange rates. The Group reviews its foreign exchange exposure on a regular basis and, if there is a material exposure to exchange rate fluctuations and the Board considers it appropriate, the Group will reduce the risk by currency hedging on net receivable/payable balances. The Group's performance is also subject to external macro economic conditions. Changes in factors such as interest rates, inflation, unemployment and commodity prices can create uncertainty in the Group's markets and affect consumer spending. This may result in the Group's customers and potential customers delaying the placing of orders with the Group and/or the reduced shipment of products incorporating the Group's technology. In turn, both of these would adversely affect the Group's result.

Future Developments

The Group intends to continue to develop its range of graphics, video, display, processing and communication technologies for use in SoC (System on Chip) devices. The Group will market these technologies to existing and new customers with a view to entering into commercial agreements for customers to incorporate the Group's technology in their SoC devices.

The PURE Digital business will continue to develop additional products using the Group's digital radio technology as well as a new range of products which also incorporate the Group's internet connectivity/streaming audio technology. These products will be marketed to existing customers in UK, and increasingly to overseas customers as digital radio markets emerge world-wide.

Research and Development

The Group spent £31,114,000 (2008: £29,110,000) on research and development and advanced technology projects.

Donations

During the period the Group made donations for charitable purposes of £766 (2008: £1,024). There were no political donations during the period (2008: £nil). The Parent Company made no donations in the current year (2008: £nil).

Directors during the Financial Period

G S Shingles, H Yassaie, T Selby, I R Pearson and D A Hurst-Brown served as Directors throughout the financial period.

In accordance with the Company's Articles of Association, H Yassaie will retire by rotation and I R Pearson will retire in accordance with the 2006 FRC Combined Code at the Annual General Meeting of the Company to be held on 14 August 2009 and will seek re-election at the meeting.

Executive Directors' service agreements are contracts of employment with a rolling notice period of less than one year.

Non-Executive Directors do not have any unexpired notice periods in their contracts.

The disclosable interests of Directors at 30 April 2009 including holdings, if any, of wives and children aged under 18 were as detailed in the Remuneration Report on page 53 and they remain unchanged as at 24 June 2009.

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 are 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 are aware of that information.

Share Capital

The Company's share capital consists of ordinary shares with a par value of 10 pence each and there were 228,386,161 ordinary shares in issue as at 30 April 2009. The rights attached to ordinary shares are as follows:

1. Each share carries the right to one vote at general meetings of the Company, and
2. Shareholders are entitled to a dividend where declared.

There are no specific restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws, regulations and Listing Rules. There are no persons holding securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreement between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Substantial Interests

As at 16 June 2009 the Company had been notified or was aware that the following had direct or indirect interests in 3% or more of the share capital of the Company:

	Ordinary Shares of 10p in the Company	Percentage Holding
SAAD Investment Company	46,650,361	20.4%
M & G Investment Management	28,678,630	12.5%
AXA Financial SA	20,861,579	9.1%
Schroder Investment Management	15,659,046	7.2%
Herald Investment Management	15,066,521	6.6%
Black Rock Inc	11,574,968	5.0%
Legal & General Investment Management	9,972,488	4.3%
Apple Inc	8,200,000	3.5%
Intel Capital Corporation	6,970,422	3.0%

Going Concern Basis

The Group has adequate financial resources together with long term contracts with a number of customers and suppliers across a range of consumer market segments and geographic areas. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Employee Involvement

As the Group is an intellectual property company, considerable value is placed on the involvement of employees in the development of the business and their involvement in the decision making process. This is encouraged by the open environment in the Group and through the delegation of responsibility throughout the business. Presentations are made to all staff on a regular basis to encourage a full understanding of the Group's strategy, vision and operational developments. Most employees receive share awards and are invited to participate in the SAYE scheme every year which in turn encourages employee share ownership.

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of age, gender, disability, ethnic origin, political or other opinion, religion or sexual orientation.

Disability is not seen as an inhibitor to employment or career development. Employees who become disabled are, wherever possible, given assistance to continue in their existing employment or to be trained for other positions.

Essential Contracts

There are no parties with whom the Group has contractual or other arrangements which are essential to the business of the Group.

Creditor Payment Policy

It is Group policy to agree payment terms with suppliers when negotiating contracts or transactions.

The Group ensures that, subject to any necessary variations which may result from supplier-related problems, the agreed payment terms are adhered to.

The number of days billings from suppliers outstanding to the Group at 30 April 2009 was 42 days (2008: 38 days). The Parent Company is purely a holding Company with investments and does not have trade creditors.

Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

Annual General Meeting (AGM)

The AGM will be held at 11.00 a.m. on 14 August 2009 at Imagination House, Home Park Estate, Kings Langley, Hertfordshire WD4 8LZ. Business to be transacted at the Meeting is set out in full in the Notice of the AGM. After the AGM, the Company will publish on its website the proxy votes cast in respect of each resolution voted on at the AGM.



By order of the Board
A. Llewellyn
Secretary
24 June 2009

Corporate Governance

Compliance with the Combined Code

The Board is accountable to shareholders for the effective direction and control of the Group and this annual report provides details of the framework of corporate governance and internal controls that the Directors have put in place to enable them to carry out this responsibility. It also shows how the Group has applied the provisions of Section 1 of the 2006 FRC Combined Code on Corporate Governance ('the Code'), and the areas of non-compliance which are noted at the end of this section.

The Board has applied the principles of the Code as follows:

The Board

The Company operates through the Board of Directors. During the financial year the Board comprised of five Directors, three Executive Directors and two Non-Executive Directors (including the Chairman who carries out his duties on a part-time basis of 40 days per annum). Biographical details for each of the Directors are set out on page 40.

The Company has in place insurance cover for its Directors and Officers with a cover limit of £5,000,000 throughout the period.

The Chairman

The Chairman, Geoff Shingles, is responsible for the leadership and management of the Board. He ensures its effectiveness on all aspects of its role, setting its agenda and ensuring that the Directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of Non-Executive Directors and ensures constructive relations between Executive and Non-Executive Directors. The Chairman maintains the proper and appropriate level of communication with shareholders. During the financial year the Chairman has held meetings with the Non-Executive Directors without the Executives being present.

The Board is satisfied that the Chairman's other professional commitments listed on page 40 do not interfere with the performance of his duties for the Company.

The Chief Executive

The Chief Executive Officer, Hossein Yassaie, is responsible for the day-to-day management of the business. He is the key driver for proposing, developing and implementing the Group's strategy as agreed by the Board. The Chief Executive Officer carries out his duties in close consultation with the Chairman, the Board and Executive Management Board who in turn are responsible for the commercial and operational activities of the Group. The Chief Executive Officer is also responsible, with the Executive team, for implementing the decisions of the Board and its Committees.

Senior Independent Director

The senior Independent Non-Executive Director of the Company is Ian Pearson. He has a dialogue with institutional shareholders to ensure their views are communicated to the Group and ensures that the performance evaluation of the Chairman is conducted effectively.

Mr. Pearson became a Director of the Company in 1998 and has therefore been connected with the Group for more than 9 years. In addition, both Non-Executive Directors have shareholdings in the Company as disclosed in the table on page 53. The Board continues to monitor the composition of the Board in line with the recommendations of the Code. The Board has considered the independence of these Directors with particular care and scrutiny. All Directors contribute significantly through their individual skills and their considerable knowledge of both the Group and the industry, and they currently provide continuity and an overall balance to the Board. In particular, they all continue to demonstrate a strong independence of management in the manner in which they discharge their responsibilities as Directors. Accordingly, the Board considers that I R Pearson and D A Hurst-Brown are independent Non-Executive Directors.

Operation of the Board

The Board is responsible for the overall direction, strategy and performance of the Group. The Board usually meets formally on a monthly basis. There is a formal agenda of items to be addressed at Board Meetings which includes matters specifically reserved for the Board, principally comprising: Group wide business and financial reviews, major capital or revenue expenditure, acquisitions or disposals, onerous business terms, treasury, risk items and board appointments. At each meeting both the Chief Executive Officer and Chief Financial Officer prepare their respective reports, the Chief Executive Officer giving a full business update with focus on the Group's relationships with current and potential partners and highlighting business-critical issues, and the Chief Financial Officer presents the financial results for the year to date together with latest financial forecasts. All Directors have access to the advice and services of the Company Secretary, who attends the monthly Board meetings and is responsible to the Board for ensuring that board procedures are complied with and that good information flows within the Board and Committees. Both the appointment and removal of the Company Secretary are a matter for the Board as a whole.

By also attending and monitoring the content of meetings and agendas, the Directors consider that there is sufficient structure to ensure the Company's strategy and control remain in its hands.

The Board also meets regularly with senior management from the Group's divisions in order to review the strategic direction of the business. The main objectives are to assess and decide upon the key technologies/products/markets for the business to exploit by assessing the potential returns against the risks. The result is a common vision of the future aspirations of the business and an understanding of the function and goals that each division has within the strategy. A divisional business plan is built around executing the strategic plan.

The Company's Executive Management Board meets on a weekly basis, with attendance by the Chief Executive Officer and Chief Financial Officer. Each member provides a monthly operational report in which progress against plan is reviewed to ensure that this is in line with the Group's strategic and business targets.

Performance Evaluation

During the year the Board reviewed its performance along with that of the Audit and Remuneration Committees. This assessment of performance is carried out by considering the objectives of each body and assessing the degree to which these objectives have been met. In the case of each Director, the performance review takes into account an individual's level of commitment to the role, effective contribution and achievement in carrying out the role. The Non-Executive Directors are responsible for performance evaluation of the Chairman, taking into account the views of the Executive Directors.

During the financial year, the Chairman periodically held meetings with the Non-Executive Directors without the Executive Directors being present and, in addition, the Non-Executives periodically held meetings without the Chairman or the Executive Directors being present.

Board Appointments

All nominations to the Board will be considered by the Board and during the financial year no specific changes were considered. The Board considers the appropriate composition of the Board from time to time and in future will continue to review its make up. As the Board is small, a Nominations Committee has not been appointed.

All Directors, in accordance with the Code, will submit themselves for re-election at least every three years. Any newly appointed Directors are required to submit themselves for re-election at the first AGM following their appointment.

Audit Committee

Members of the Committee

During the financial year, the Audit Committee comprised D A Hurst-Brown as Chairman and I R Pearson as a member.

The Code requires that the Board be satisfied that at least one member of the Committee has recent and relevant financial experience. The Board has considered this requirement and, taking into account the financial background of the Chairman of the Committee, is satisfied that this requirement is met and that the Committee has sufficient experience to fulfil its obligations in an effective manner.

Responsibilities

The Committee is required to satisfy itself as to the adequacy and effectiveness of internal controls and compliance procedures within the Group and that the principles, policies and practices adopted in the preparation of the accounts of the Group and the annual financial statements comply with statutory requirements. The Audit Committee has written terms of reference which are available to be viewed at the AGM, and are available at www.imgtec.com.

In discharging its responsibilities, the Committee reviews the interim and annual financial statements and the terms and scope under which the external auditors are appointed or reappointed. The Committee also reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The Committee holds meetings with the external auditors whenever it feels it needs advice or clarification of issues, but in any case the Audit Committee meets formally with the external auditors at least once per year, with a portion of the meeting without the Executive Directors present. The Committee is also responsible for determining and reviewing the policy for engaging the external auditor in respect of non-audit work.

The Audit Committee reviews arrangements by which staff of the Group may in confidence raise concerns over possible improprieties in financial reporting or other matters.

Remuneration Committee

A description of the composition, responsibility and operation of the Remuneration Committee is set out in the Remuneration Report on pages 49-53 which is prepared in accordance with the Companies Acts 1985 and 2006.

Board and Committee Meeting Attendance

The attendance of Directors at Board meetings and Committee meetings is set out below:

No. of meetings	Main Board Meetings 10	Audit Committee 3	Remuneration Committee 4
G S Shingles	10	1*	4*
H Yassaie	10	1*	4*
T Selby	10	3*	4*
I R Pearson	9	3	4
D A Hurst-Brown	9	3	4

* Denotes attendance by a Director (who is not a member of the Committee) at a Committee meeting, either for the whole or part of the meeting, as requested by the Chairman of the Committee.

Independent Professional Advisers

The Directors are able to bring necessary matters to the attention of the Board so that the appropriate professional advisers can be briefed and authorised to provide the required independent advice. However, all Directors can, if they feel it necessary, take independent professional advice in furtherance of their duties, at the Company's expense.

Financial Reporting

The financial position of the Group is discussed in the Chairman's Statement, Chief Executive's Review and the Directors' Report giving a balanced and understandable assessment of the Company's position and prospects.

After reviewing current performance and plans, and making enquiries considered appropriate, the Directors are satisfied that at the time of approving the Financial Statements adequate resources are available to the Group to enable it to continue in business for the foreseeable future. For this reason the Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements.

Relations with Shareholders

The Company continues to actively encourage two-way communications with shareholders. Principally through the Board, the Company endeavours to establish and maintain healthy relationships with its institutional shareholders by holding regular meetings after results with further dialogue as requested. Shareholders can register to receive the Company's press releases via the internet and any queries from individual shareholders are answered promptly by a nominated person.

The Company gives shareholders 21 days notice of the Annual General Meeting. At the AGM the Directors make a full presentation to shareholders to explain recent developments in the business, followed by an open question and answer session which provides shareholders with the opportunity to ask Directors and senior employees questions about the business, the Company prepares separate resolutions on each substantially separate issue, a schedule of proxy votes cast is made available for inspection at the conclusion of proceedings. The AGM is held at the Company's headquarters in Kings Langley where shareholders can visit demonstration rooms displaying the Group's technology in Company products or partners' products and senior divisional employees are on hand to give in-depth detail of the Company's intellectual property. The Board is available to meet shareholders on an informal basis.

The Non-Executive Directors have access to independent feedback from shareholders after results presentations which, supported by periodic attendance at analyst and shareholder presentations, provides them with an understanding of the views of major shareholders. The Senior Non-Executive Director is available for dialogue with major shareholders if required.

Consulting with Employees

The Company understands and appreciates the importance of effective communication with its employees. Where there are matters arising in the Company which could impact staff there is an appropriate consultation process. This is mainly achieved through the monthly divisional meetings where employee-related items are initially discussed; the general managers will in turn consult their employees in the given division and feedback any constructive responses before the Company proceeds in making decisions.

Corporate Social Responsibility

The Company is primarily accountable to its shareholders, however it also recognizes that it has responsibilities to other stakeholders which include employees, partners, customers, suppliers, the local community and the surrounding environment where it operates. Employees are highly regarded and valued, and their employment and other rights are respected. The Group is committed to the important principle of equal opportunity which is reflected in the Company's recruitment, disciplinary and grievance policies. The Company is dedicated to supplying products of top quality to meet its customers' requirements in a manner that is consistent with high environmental and ethical standards. The Company aims to make a contribution to the communities in which it operates.

Environmental Statement

The Board understands and recognizes the increasing importance of environmental issues though it has limited direct impact on the environment since it is not involved in heavy industry or any direct manufacturing activity. Company premises are composed of offices with the main activity in the Group being the development of hardware and software designs by employees working on computers, involving neither the use of hazardous substances or complex waste emissions.

The Group continues its promotion and support of practices for the use of resources in an environmentally friendly manner. The Group has energy saving measures in place for recycling components, such as printed circuit boards, toner cartridges and surplus packaging and discourages Company vehicles with only a small number of vehicles throughout the Group. The Group is now recycling all paper and cardboard.

PURE continues to produce all its products in line with its published EcoPlus commitment (www.pure.com/ecoplus). Since working with the Energy Saving Trust to define a standard for low power consumption for digital radios, PURE has had 10 products certified as Energy Saving Recommended – the only brand to have done so. PURE has recently started to promote its environmental credentials through a trade and consumer campaign entitled "less than a lightbulb", which highlights that you can run four PURE EST recommended radios for less power than a single low-energy lightbulb. This campaign will run from June 2009 to the end of the year with eco prizes for retail staff and consumers.

With respect to the Group's sub-contract manufacturing activities, the Company has taken the necessary action to comply with the provisions of the Use of Certain Hazardous Substances in Electrical Equipment Regulations 2005 (RoHS) and Waste Electrical and Electronic Equipment (WEEE). The Company is a member of the compliance scheme REPIC to meet our obligations as a producer of WEEE and are members of the Distributor Takeback Scheme run by Valpak to meet our obligations as direct sellers.

The Company continue to provide information to shareholders electronically and make documents available through the website rather than via paper copies. The Company can report that with the support from shareholders less than 1% of shareholders now receive paper copies, thereby providing significant environmental and cost benefits.

Conflicts of Interest

The Company has put in place procedures for the disclosure and review of any conflicts or potential conflicts, of interest which the Directors may have and for the authorisation of such conflict matters by the Board. In deciding whether to authorise a conflict, or potential conflict the Directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, may be reviewed at any time and will be reviewed formally by the Board on an annual basis.

Health and Safety

The Company takes the health and safety of its employees, business partners, contractors and any visitors to Company premises seriously and during the year the Company has been working with its insurance broker, Henderson Risk Management to update the Health and Safety Policy. In this process the Company has set up a Health and Safety Committee to raise the awareness of Health and Safety welfare issues, to consider new legislation and regulations governing the workplace and to obtain feedback from employees on any specific items in their division or building. It is intended that the Committee will meet on a quarterly basis and the Company Secretary is Chairman of the Committee.

Internal Controls/Risk Management

The Board of Directors has overall responsibility for ensuring that the system of internal control is effective. This covers all material controls including financial, operational, compliance and risk management systems. This system is intended to manage rather than eliminate the risk of failure to achieve business objectives, and provides only reasonable and not absolute assurances against material misstatement or loss.

The Directors reviewed the existing risk management processes within the operating businesses to document and report on significant areas of business risks and their controls and that the process accords with the Turnbull Guidance. There is an ongoing process for the effective identification, evaluation and management of significant risks faced by the Group.

This process was in place throughout the financial year and as at the date of approval of the Annual Report and Financial Statements. Under this process the Board receives a detailed report outlining all the main risks associated with both the Technology and PURE Digital businesses and the report is reviewed thoroughly to consider if any necessary action is required to address these risks. If the Board concludes that action is required, it is given regular updates on progress and is also made aware of any new risks that are identified as an on-going process continues throughout each financial year.

Executive members of the Board have day to day involvement in all aspects of the business and attend monthly management meetings at which both financial and operational performance against targets are reviewed. Any items found during the monthly review which do not meet previously agreed targets are discussed in order to ensure that any corrective actions are implemented.

A comprehensive budget is presented for the forthcoming year and approved by the Board. Expenditure is controlled against formal authorisation limits. Major items of capital and revenue expenditure and all treasury matters are reserved for members of the Board alone.

The Board and the Audit Committee have considered the need for an Internal Auditor, and, after taking into account the size of the organisation, have concluded that at this stage there is no requirement.

Compliance Statement

The Listing Rules require the Board to report on compliance with the provisions of the Code throughout the accounting period. Save the exceptions listed below, the Company has complied throughout the current accounting year ended 30 April 2009 with the provisions set out in Section 1 of the Code.

As the Board is small, a Nominations Committee has not been appointed consisting solely of Non Executive Directors. All nominations to the Board will be considered by the full Board. The Board is aware that I R Pearson has been a Non-Executive Director for more than nine years and that, in accordance with the Code, he will be retiring for re-election at the Annual General Meeting. The Board has carefully considered his role in the Company and believes that he is an Independent Director.

Remuneration Report

Remuneration Committee

The Remuneration Committee ('the Committee') advises and makes recommendations to the Board on an appropriate remuneration policy, within the agreed terms of reference which are available on the Company's website at www.imgtec.com.

During the financial year the members of the Committee have been I R Pearson and D A Hurst-Brown. The Committee Chairman is I R Pearson.

The Committee is responsible for determining and agreeing with the Board the remuneration packages of each of the Executive Directors. This includes basic salary, annual bonus, level of awards under the Employee Share Plan ('Awards') and the terms of any performance conditions to apply to the exercise of such rights, pension rights, determining their terms and conditions of service, and any compensation payments and to ensure that such remuneration levels are appropriate and acceptable.

Olswang provided legal services in relation to share incentive plans, Matthew Arnold Baldwin provided general employment and property advice and the Company's Independent Financial Advisor, HACL advised on pension matters. The Committee also obtains a number of independently published remuneration surveys to assist in setting the overall packages of senior management.

The remuneration of I R Pearson and D A Hurst-Brown is established by the Executive Directors of the Board. The Committee also has discussions with the Board in relation to the Board's annual report to shareholders on the Group's policy on the remuneration of Executive Directors and in particular the Directors' Remuneration Report, as required by the Companies Acts 1985 and 2006, the Code and the Listing Rules of the Financial Services Authority. No Board member is involved in deciding his own remuneration package.

Remuneration Policy

The Committee has given full consideration to the Principles of Good Governance as set out in the Code with reference to Directors' remuneration. The main objectives of the policy are to ensure that pay and benefits packages are sufficiently competitive to attract, develop and retain high calibre executives. The Committee will continue, in the future to ensure that a competitive and well-balanced package is maintained. It also seeks to align individual reward and incentives with the performance of the Group and, hence, with the interests of the shareholders. When carrying out its role the Committee will consider corporate performance on environmental, social and corporate governance issues.

Directors' Remuneration

The main elements of the Executive Directors remuneration are:

Basic salary

To review and determine the specific levels of basic salary, the Committee draws on a wide range of relevant data, market conditions, as well as Company and individual performance.

Share Incentives

The Committee aims to ensure that Executives and senior employees are fairly rewarded for their contribution to the success of the Company. The Group is currently operating an Employee Share Plan (ESP) and a Save As You Earn ('SAYE') plan, both of which were approved by shareholders at the AGM in 2006. The Committee continues to believe that appropriate share incentives provide the best form of long term incentive needed to motivate and retain employees and to encourage employee share ownership. As a result of recent changes in the economy, the Company is proposing to adopt a Company Share Option Plan to permit the grant of tax-efficient share options to Group employees. There are a number of share options outstanding under the Company's old schemes, including approved and unapproved key employee schemes, an Enterprise Management Incentive (EMI) scheme and a Long-Term Incentive Plan (LTIP) scheme.

The discretionary Awards under the ESP have performance criteria, the specific conditions for the ESPs introduced in 2006 and 2007 are based on the increase in the share price relative to the increase in the FTSE All Share Index and an increase in the royalty income over a three year period. The ESP in 2008 maintained one of the performance conditions from 2006 and 2007, namely the share price relative to the increase in the FTSE All Share Index and it was decided by the Board that royalty income was no longer an appropriate performance condition for the Group as a whole due largely to the increasing important contribution made by the PURE division to the business and hence, changed the increase in royalty income performance condition to growth in gross profit over a three year period. The performance conditions are detailed on page 52.

The discretionary options that were all granted before the adoption of the Employee Share Plan have performance criteria based on the achievement of targets in the market price of Imagination Technologies Group plc shares, and those options issued to Directors have the performance conditions attached to them as set out on page 52. The SAYE scheme does not have performance conditions.

The discretionary options granted were at market value, whilst SAYE options have been issued at a 20% discount to market value.

Share Bonus

The cash bonus awards which were originally granted to the Executive Directors in September 2006 were replaced with equivalent Share Appreciation Rights ("SARs") in November 2007. The amount payable under the SARs will be determined by multiplying the number of shares in respect of which the SARs vest by the value of a share at the date of payment. The SARs are subject to the applicable terms set out in the Employee Share Plan. Details of the SARs are shown in the following table:

	Original bonus grant date	Balance at 1st April 2007	Balance at 30th April 2008	Expected vesting date	Expiry date
H Yassaie	Sep-2006	244,000	244,000	Sep-2009	Sep-2009
T Selby	Sep-2006	64,500	64,500	Sep-2009	Sep-2009

50% of each SAR is subject to the same performance targets as apply to the other awards granted under the Employee Share Plan in September 2006 as referred to on page 52. This element of the SARs when aggregated with equivalent bonuses across other employees shall not exceed 10% of the Group's earnings before interest in the financial year 2008/2009.

The remaining 50% of each SAR is payable based on the Group's earnings before interest and tax in the financial year 2008/2009. 50% of this element of the SAR will be payable if the Group's earnings before interest and tax is £5 million. 100% of this element of the SARs will be payable if the Group's earnings before interest and tax is £10 million. If the Group's earnings before interest and tax are between £5 million and £10 million, the percentage of this element of the SARs that becomes payable will be calculated on a straight line basis between £5 million and £10 million. The maximum payment for both elements is capped at the equivalent of £3 per share.

Cash Bonus

The Group has an annual cash bonus plan for key Executives. Awards under the annual bonus plan are split into two portions, a portion that is discretionary based on performance and a portion that relates to the achievement of budgeted profit. No payments were made under the annual bonus plan in the financial year.

Pension policy

The Group does not run its own pension scheme and Executive Directors are eligible to become members of the Group Personal Pension Plan, which is a defined contribution scheme. There are no special arrangements for Executive Directors and the same employer contribution of 7.5% of executive basic salary applies. A Pension Salary Sacrifice scheme was introduced for all members of the pension scheme, including Executive Directors in December 2008 and this has impacted the amounts stated in Directors' Emoluments on page 51.

Service contracts

The Executive Directors have ongoing service contracts all dated 31 March 1998 which may be terminated by either party on six months notice. The Committee regards the notice period in these contracts as being appropriate. In the event of termination of an Executive Director's service contract there are no specific compensation entitlement provisions in the contracts with respect to termination, other than the notice period.

Remuneration policy for Non-Executive Directors

The Non-Executive Directors' remuneration consists of fees for their services in connection with Board and Committee meetings and where appropriate for devoting additional time and expertise for the benefit of the Company. Non-Executive Directors have letters of appointment. I Pearson's and D Hurst-Brown's letters are dated respectively 14 April 1998 and 4 August 2000. Non-Executive Directors are re-elected as Directors, and thereby reappointed, at least every three years. I R Pearson will seek re-election at this year's AGM since he has been a Non-Executive Director for more than nine years and under the Combined Code a Non-Executive Director is required to be re-elected annually if he has served the board for more than nine years.

Non-Executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's annual cash bonus or other share incentive schemes. The remuneration of Non-Executive Directors is determined by the Executive Directors of the Board and no element of their fees is performance-related.

Other directorships

Any other directorships of the Non-Executive Directors are set out on page 40 with the directorships of G Shingles, who carries out his executive duties with the Group on a part time basis. The Board is satisfied that these directorships do not interfere with the performance of Directors' duties for the Company.

Total shareholders' return

Total cumulative shareholder return for the five-year period to 30 April 2009



In the total shareholder return analysis the TechMark All-Share Index has been chosen to compare the performance of the Company's share price against an index of comparable companies.

The following information has been audited:

Directors' Emoluments

The following table is intended to bring together the value of the various emoluments of remuneration received by each Director during the period.

	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Total 2009 £'000	Total* 2008 £'000	Pension 2009 £'000	Pension* 2008 £'000
Executive Directors							
G S Shingles	86	—	2	88	95	—	—
H Yassaie	247	—	1	248	218	23	15
T Selby	121	—	1	122	159	67	11
Non-Executive Directors							
I R Pearson	28	—	—	28	30	—	—
D A Hurst-Brown	28	—	—	28	30	—	—
Total	510	—	4	514	532	90	26

* 13 months to 30 April 2008.

Directors' Share Incentives

The following table sets out the share-related incentives the Directors have in the shares of Imagination Technologies Group plc.

	Grant Date	Balance at 1 May 2008	Lapsed during the year	Exercised during the year	Granted during the year	Balance at 30 April 2009	Exercise Price	Date from which first exercisable	Expiry date
G S Shingles	Aug-1998	*350,000	(*350,000)	—	—	—	64p	Aug-2000	Aug-2008
	Sep-2006	**6,435	—	—	—	**6,435	60.5p	Nov-2009	May-2010
	Sep-2007	**5,447	(**5,447)	—	—	—	102p	Nov-2010	May-2011
	Sep-2008	—	—	—	**8,115	**8,115	55.6p	Nov-2011	May-2012
	Oct-2008	—	—	—	***131,250	***131,250	—	Oct-2011	—
H Yassaie	Aug-1998	1,000,000	(1,000,000)	—	—	—	64p	Aug-2001	Aug-2008
	Aug-1998	*500,000	(*500,000)	—	—	—	64p	Aug-2000	Aug-2008
	Aug-2001	*1,000,000	—	—	—	*1,000,000	64p	Aug-2003	Aug-2011
	Sep-2006	**6,435	—	—	—	**6,435	60.5p	Nov-2009	May-2010
	Sep-2006	***130,000	—	—	—	***130,000	—	Sep-2009	—
	July-2007	***24,180	—	—	—	***24,180	—	July-2010	—
	Sep-2007	**5,447	(**5,447)	—	—	—	102p	Nov-2010	May-2011
	Sep-2008	—	—	—	**8,115	**8,115	55.6p	Nov-2011	May-2012
	Oct-2008	—	—	—	***1,029,000	***1,029,000	—	Oct-2011	—
T Selby	Aug-1998	*400,000	(*400,000)	—	—	—	64p	Aug-2000	Aug-2008
	Aug-2001	*300,000	—	—	—	*300,000	64p	Aug-2003	Aug-2011
	Sep-2006	**6,435	—	—	—	**6,435	60.5p	Nov-2009	May-2010
	Sep-2006	***70,000	—	—	—	***70,000	—	Sep-2009	—
	July-2007	***24,180	—	—	—	***24,180	—	July-2010	—
	Sep-2007	**5,447	(**5,447)	—	—	—	102p	Nov-2010	May-2011
	Sep-2008	—	—	—	**8,115	**8,115	55.6p	Nov-2011	May-2012
	Oct-2008	—	—	—	***210,550	***210,550	—	Oct-2011	—
Total		3,834,006	(2,266,341)	—	1,395,145	2,962,810			

As at 24 June 2009 there had been no changes in the balance of options outstanding.

* Options which have been issued under the Long Term Incentive Plan.

** Options which have been issued under the Savings Related Share Option Scheme.

*** Awards which have been made under the Employee Share Plan (ESP).

The options in brackets have lapsed.

The mid-closing price of the shares on 30 April 2009 was 100p and the range during the financial period was 32p to 110p.

Executive Directors – Share option performance conditions:

The option granted to H Yassaie in August 1998 of over 1,000,000 shares is exercisable if the share price growth at the date of exercise is at least 20% greater than the grant price.

Options issued under the Long Term Incentive Plan are exercisable if the share price growth is at least greater than an annual compound increase of 15% per annum in the share price over the four year period following the date of grant and there has been an improvement in the underlying financial performance of the Company in the opinion of the Remuneration Committee.

The Employee Share Plans Awards for 2006 and 2007 have two performance conditions:

1. FTSE All Share Index. The first 50% of the Award is subject to the performance of Company's shares. It is dependent on the percentage growth in the value of a share in the Company compared to the percentage growth of the FTSE All Share Index over the three year period commencing on the date of grant of the Award. If the performance of a share in the Company against the Index is 150% then all 50% of the Award will vest, if the performance of a share in the Company against the Index is between 125% and 150% of the Index then pro-rata on a straight line basis between 25% and 50% will vest, and if the performance of a share in the Company against the Index is below 125% of the Index then there is no Award; and
2. Royalty Income. The second and remaining 50% of the Award will be calculated by reference to the royalty income generated by the Group. 25% of the Award will vest if the average annual increase in royalty income over the three year period commencing on 1st April 2006 (the "Performance Period") exceeds 30%. 50% of the Award will vest if the average annual increase in royalty income over the Performance Period equals or exceeds 50%. The Award will vest pro-rata on a straight-line basis between 25% and 50% for average annual growth in royalty income between 30% and 50%. There will be no vesting in respect of this part of the Award if the average annual increase in royalty income is less than 30%.

The Employee Share Plan Awards for 2008 have two performance conditions:

1. The first condition is the same as the ESPs for 2006 and 2007 and that is FTSE All Share Index; and
2. Gross Profit. The second condition and remaining 50% of the Award will be calculated by reference to gross profit. Vesting will be calculated by reference to the gross profit generated by the Group as derived from the Company's audited report and accounts prepared on a consolidated basis ("Gross Profit"). The Award will vest, if at all, as to a percentage of the total number of shares which are the subject of it on the basis set out in the table below. The Gross Profit will be measured over the three financial periods commencing 1 May 2008 (the "Performance Period"). The growth in Gross Profit will be measured for each financial period against the previous financial period and then averaged at the end of the Performance Period. In the case of the first financial period in the Performance Period, the Gross Profit for that year will be compared to the Gross Profit for the period to 30 April 2008.

	Average growth in Gross Profit over the Performance Period	Percentage of this portion of the Award which Vests
	15%	40%
	17%	55%
	19%	70%
	21%	85%
	23% or more	100%

Options issued under the Savings Related Share Option Scheme do not have any performance conditions.

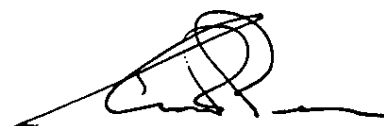
Directors' Interests

Interests of the Directors in the shares of Imagination Technologies Group plc were as follows:

Ordinary shares of 10p beneficially owned at 30 April	2009	2008
G S Shingles	230,698	230,698
H Yassaie	450,767	450,767
T Selby	86,767	86,767
I R Pearson	39,722	39,722
D A Hurst-Brown	100,000	100,000

As at 24 June 2009 there had been no changes in the above interests.

This report was approved by the Board on 24 June 2009 and was signed on its behalf by:



I R Pearson
Chairman of the Remuneration Committee

Independent auditors' report to the members of Imagination Technologies Group plc

We have audited the financial statements of Imagination Technologies Group plc for the year ended 30 April 2009, set out on pages 55 to 79. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 43 to 44, 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 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 (APB'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 APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 April 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

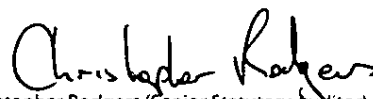
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 43, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review.



Christopher Rodgers (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square, London EC4Y 8BB

24 June 2009

Consolidated Income Statement

	Notes	Year to 30 April 2009 £'000	13 months to 30 April 2008 £'000
Revenue	1, 2	64,088	60,022
Cost of sales		(21,755)	(21,413)
Gross profit		42,333	38,609
Research and development expenses		(31,114)	(29,110)
Sales and administrative expenses		(8,100)	(7,997)
Write down on investment		(517)	—
Total operating expenses		(39,731)	(37,107)
Operating profit		2,602	1,502
Financial income	5	149	428
Financial expenses	6	(29)	(49)
Net financing income		120	379
Profit before tax		2,722	1,881
Taxation	7	5,404	383
Profit for the financial year/ period attributable to equity holders of the parent		8,126	2,264
Earnings per share			
Basic	8	3.7p	1.0p
Diluted	8	3.5p	1.0p

During this year and the previous period all results arise from continuing operations.

Consolidated Statement of Recognized Income and Expense

	Year to 30 April 2009 £'000	13 months to 30 April 2008 £'000
Exchange differences on translation of foreign operations	116	30
Change in fair value of available for sale investment	—	(3,422)
Deferred tax arising on available for sale investment	—	(757)
Total income and expense recognized directly in equity	116	(4,149)
Profit for the financial year / period attributable to equity holders of the parent	8,126	2,264
Total equity income and expense for the financial year/period attributable to equity holders of the parent	8,242	(1,885)

Consolidated Balance Sheet

	Notes	As at 30 April 2009 £'000	As at 30 April 2008 £'000
Non-current assets			
Intangible assets	9	4,909	4,700
Property, plant and equipment	10	4,851	4,626
Investments	11	4,094	4,611
Other receivables	13	795	795
Deferred tax	7	5,460	-
		20,109	14,732
Current assets			
Inventories	12	3,723	5,129
Other receivables	13	18,002	12,988
Cash and cash equivalents	14	14,574	7,241
		36,299	25,358
Total assets		56,408	40,090
Current liabilities			
Current portion of long term borrowings	16	(58)	(30)
Trade and other payables	15	(10,246)	(7,074)
		(10,304)	(7,104)
Non-current liabilities			
Deferred tax liability	7	(76)	(243)
Other interest bearing loans and long term borrowings	16	(430)	(500)
		(506)	(743)
Total liabilities		(10,810)	(7,847)
Net assets		45,598	32,243
Equity			
Called up share capital	17	22,839	21,926
Share premium account	18	53,435	50,937
Other capital reserve	18	597	597
Warrant reserve	18	826	826
Merger reserve	18	2,402	2,402
Revaluation reserve	18	2,235	2,235
Translation reserve	18	134	18
Retained earnings	18	(36,870)	(46,698)
Total equity attributable to equity holders of the parent	18	45,598	32,243

These financial statements were approved by the Board of Directors on 24 June, 2009 and were signed on its behalf by:



G S Shingles
Director

Consolidated Cash Flow Statement

	Note	Year to 30 April 2009 £'000	13 months to 30 April 2008 £'000
Cash flows from operating activities			
Profit after tax		8,126	2,264
Tax credit		(5,404)	(383)
Profit before tax		2,722	1,881
Adjustments for:			
Depreciation and amortisation		1,776	1,751
Net financing income		(120)	(379)
Share-based remuneration		1,766	1,318
Write down of investment		517	—
Operating cash flows before movements in working capital		6,661	4,571
Decrease/(increase) in inventories		1,406	(1,493)
Increase in receivables		(4,904)	(3,451)
Increase/(decrease) in payables		1,873	(572)
Cash generated/(absorbed) by operations		5,036	(945)
Interest paid		(31)	(49)
Taxes paid		(321)	(33)
Net cash flows from operating activities		4,684	(1,027)
Cash flows from investing activities			
Interest received		162	437
Acquisition of intangible assets		(722)	(456)
Acquisition of property, plant and equipment		(1,660)	(2,099)
Net cash used in investing activities		(2,220)	(2,118)
Cash flows from financing activities			
Proceeds from the issue of share capital		3,411	794
Repayment of borrowings		(40)	(28)
Net cash from financing activities		3,371	766
Net increase/(decrease) in cash and cash equivalents		5,835	(2,379)
Effect of exchange rate fluctuation		1,498	61
Cash and cash equivalents at the start of the period		7,241	9,559
Cash and cash equivalents at the end of the period	14	14,574	7,241

Notes to the Financial Statements

1 Accounting Policies

General

Imagination Technologies Group plc is a company incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group).

Significant accounting policies

Statement of compliance

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 77 to 79.

Basis of preparation

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below under 'Significant accounting judgements and estimates'.

Measurement convention:

The financial statements are prepared on the historical cost basis except that the trade investment and derivatives have been stated at fair value in accordance with IAS 39.

Going concern

The Group has adequate financial resources together with long term contracts with a number of customers and suppliers across a range of consumer market segments and geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive's Review on pages 3 to 11.

Further information regarding the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in notes 14 and 16 on pages 68 to 69.

In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Revenue

Revenue comprises:

- 1 the value of consideration received in return for license fees, development income, maintenance and royalties from license 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 Group's technology to third parties.

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue from licenses is recognized on delivery to the customer. Revenue on license agreements for products which are either not finished or which need to be modified to meet specific customer requirements is recognized 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 license agreements to unspecified current and future products is recognized on a straight-line basis over the term of the arrangement.

Revenue on development work is recognized 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 license 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 Group evaluates whether it has obtained, through its performance to date, the right to the uninvoiced consideration and therefore whether revenue should be recognized. In particular it considers whether there is sufficient certainty that the invoice milestones will be achieved in the expected timeframe, that the customer considers that the Group's contractual obligations have been, or will be, fulfilled and that only those costs budgeted to be incurred will be incurred. Where the Group considers that there is insufficient evidence that it is probable that the economic benefits associated with the transaction will flow into the Group, taking into account these criteria, revenue is not recognized until there is sufficient evidence that it is probable that the economic benefits associated with the transaction will flow into the Group.

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

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

Royalty revenues are earned on the sale by licensees of products containing the Group's technology. Revenues are recognized as they are earned to the extent that the Group has sufficient evidence of sales of products containing the Group's technology by licensees.

Revenues from the sale of products to support technology licensees and systems products utilising the Group's technology to third parties are recognized upon delivery and are accounted for net of VAT, discounts and returns. Returns are recognized at the point at which the Group has adequate knowledge that products are likely to be returned by a customer.

Research and development costs

Costs of basic and applied research are written off in the period in which they are incurred.

Development expenditure is capitalized where it relates to a specific project where technical and commercial feasibility has been established, adequate technical, financial and other resources exist to complete the project, the expenditure attributable to the project can be measured reliably and future economic benefits are probable. In this case, it is recognized as an intangible asset and amortized over its useful economic life. All other development expenditure is recognized as an expense in the period in which it is incurred.

Development costs incurred after the establishment of technical feasibility and overall project and commercial profitability have not been significant and, therefore, no costs have been capitalized to date.

Operating leases

Rental charges in respect of operating leases are charged to the income statement on a straight line basis over the life of the lease.

Employee benefits

The Group contributes to a defined contribution pension plan. Payments are charged to the income statement in the period to which they relate.

Share-based payment transactions

The share option programmes and the Employee Share Plan (together 'Share Incentives') allow Group employees to acquire shares of the Company. The fair value of Share Incentives is recognized 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 recognized 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 conditions not meeting the threshold for vesting.

For the Share Appreciation Rights, cash bonuses are calculated by reference to the value of shares. The fair value of these bonuses is recognized as an expense, with a corresponding increase in liabilities over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in the income statement.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method on any temporary differences between the carrying amounts for financial reporting purposes and those for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. The following temporary difference is not provided for: goodwill not deductible for tax purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Foreign exchange

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at rates of exchange ruling at the balance sheet date. Exchange gains and losses are taken to the income statement.

On consolidation, results of foreign subsidiary undertakings are translated at the average rates of exchange for the year. The assets and liabilities are translated at rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net investments in overseas subsidiary undertakings and between the results for the year translated at average and closing rates are

disclosed as movements in the translation reserve within equity. This reserve was set to zero at 1st April 2004.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments.

Intangible assets

Software, trademarks and patents are capitalized as intangible assets at cost of acquisition and amortized on a straight line basis over their estimated useful economic lives, between 3 and 5 years. Intangible assets acquired as part of a business combination are stated in the balance sheet at their fair value at the date of acquisition and amortized over their estimated useful economic lives.

Trade investments

Consistent with the requirements of IAS 39, trade investments are classed as available for sale and are stated on the balance sheet at fair value, with any resultant gain or loss being recognized directly in equity (in the revaluation reserve), except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

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.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired) arising on consolidation in respect of acquisitions is capitalized. Goodwill is recognized as an intangible asset and reviewed for impairment at least annually. Any impairment is recognized immediately in the income statement and may not be subsequently reversed.

On disposal of a subsidiary or business, the attributable goodwill is included in the determination of the profit or loss on disposal.

Goodwill is stated on the balance sheet at cost less impairment.

Business combinations that took place prior to 1st April 2004 have not been re-stated and goodwill represents the amount recognized under the Group's previous accounting framework.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated to write down their cost using the straight line method to their estimated residual values over the period of their estimated useful economic lives. Periodic reviews are made of estimated remaining useful economic lives and residual values, and the depreciation rates applied are:

Freehold land	No depreciation
Freehold buildings	2 per cent on cost
Leasehold improvements	Equally over the period of the lease
Plant and equipment	10 per cent to 33 per cent on cost
Motor vehicles	25 per cent on cost

Impairment

Non-financial assets

Goodwill has an indefinite useful life, is not subject to amortisation and is tested annually for impairment. Assets that are subject to amortisation 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 income statement.

In respect of assets other than goodwill, 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 amortisation, if no impairment loss had been recognized. Impairment losses in respect of goodwill are not reversed.

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss

in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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.

All impairment losses are recognized in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to the income statement.

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.

Inventories

Inventory is valued at the lower of cost and net realisable value. The cost of inventory is calculated using the FIFO method. Finished goods include direct costs and attributable overheads based on the normal level of activity.

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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

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.

Long Term Borrowing

Long term borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, long term borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Significant accounting judgements and estimates

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

Revenue Recognition

The Group has made judgements on the percentage-to-completion for licensing and development work which affect the amount of revenue recognized in the period.

Share based payments

A charge of £1,766,000 (2008: £1,318,000) has been expensed for Share Incentives. 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 awards/options exercise price, its term, the risk-free interest rate and the expected volatility of the market price of the Company's shares. In determining the appropriate expense, the Group has made judgements on the likelihood that internal performance targets will be achieved and on the number of employees that will be employed on vesting. Details of share-based payments and the assumptions applied are disclosed in Note 23.

Taxation

The Group has a recognized deferred tax asset of £5,460,000 (2008: £nil), a recognized deferred tax liability of £76,000 (2008: £243,000) and an unrecognized deferred tax asset of £12,533,000 (2008: £15,618,000). A deferred tax asset is recognized only to the extent that it is probable that sufficient taxable profit will be available to utilize the temporary difference. The Group has made judgements on the likelihood that future taxable profit will utilize these tax losses.

Impairment of Goodwill

The Group determines whether goodwill is impaired at a minimum on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill relates. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit that holds the goodwill at a determined discount rate and an appropriate growth rate to calculate the present value of those cash flows. Details of assumptions used are set out in Note 9.

Investments

The Group has stated trade investments at fair value. The fair value of the investment in Frontier Silicon, which is not a listed company, was calculated by means of a discounted cashflow forecast. This resulted in the value of the investment in Frontier Silicon remaining at £3,605,000.

As at 30 April 2009, the Group had committed to exchange its investment in FutureWaves for 6,979,612 shares in Toumaz Holdings, a company listed on AIM. The value of these shares in Toumaz Holdings was £489,000 as at 30 April 2009 and this has been used as the fair value for the FutureWaves investment as at 30 April 2009.

Further details of these investments and the valuation basis are detailed in Note 11.

Adopted IFRS not yet applied

The following Adopted IFRSs were available for early application but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IFRS 8 'Operating Segments' (mandatory for the year commencing on or after 1 January 2009). IFRS 8 supersedes IAS 14, "Segmental reporting", under which segments were identified and reported on risk and return analysis. IFRS 8 will require the presentation and disclosure of segments based on internal reporting. The Group plans to adopt these amendments for the year ending 30 April 2010.

Revised IAS 1 'Presentation of Financial Statements' (mandatory for the year commencing on or after 1 January 2009). The amendments to IAS 1 in the current year would not have had a material effect on the balance sheet or income statement. The Group plans to adopt these amendments for the year ended 30 April 2010.

Amendments to IFRS 2 'Share based payment – Vesting Conditions and Cancellations' (mandatory for the year commencing on or after 1 January 2009). The amendments to IFRS 2 in the current year would not have had a material effect on the balance sheet or income statement. The Group plans to adopt these amendments for the year ending 30 April 2010.

Amendment to IAS 23 Borrowing Costs (mandatory for the year commencing on or after 1 January 2009). The amendments to IAS 23 in the current year would not have had a material effect on the balance sheet or income statement. The Group plans to adopt these amendments for the year ending 30 April 2010.

2 Segment Reporting

The Group operates as two business segments: the Technology business, comprising licensing and royalty revenues; and the PURE Digital business. The segment information in respect of these businesses is presented below.

Primary reporting format – business segments

	2009 £'000	2008 £'000
Revenue		
Technology business	36,889	29,863
PURE Digital business	27,199	30,159
	64,088	60,022
Operating profit/(loss)		
Technology business	5,648	(97)
PURE Digital business	(3,046)	1,599
	2,602	1,502
Total assets		
Technology business	28,978	23,846
PURE Digital business	7,396	9,003
Unallocated assets	20,034	7,241
	56,408	40,090
Total liabilities		
Technology business	5,692	3,707
PURE Digital business	4,612	3,367
Unallocated liabilities	506	773
	10,810	7,847
Net asset analysis		
Technology business	23,286	20,139
PURE Digital business	2,784	5,636
Unallocated assets and liabilities	19,528	6,468
	45,598	32,243
Other segment items		
Capital expenditure		
Technology business	1,937	2,176
PURE Digital business	273	238
	2,210	2,414
Depreciation and amortisation		
Technology business	1,601	1,579
PURE Digital business	175	172
	1,776	1,751

Secondary format – geographical segments

Revenue is segmented by geographical area of sales as follows:

	2009 £'000	2008 £'000
United Kingdom and Europe	28,957	32,175
Asia	21,215	14,649
North America	13,888	12,334
Rest of the world	28	864
	64,088	60,022

All revenue originated from United Kingdom and Europe.

The operating profit, net assets and capital expenditure of the Group materially relate to the United Kingdom and Europe.

3 Expenses and Auditors' Remuneration

	2009 £'000	2008 £'000
Operating profit is stated after charging/(crediting):		
Depreciation and amortisation of owned property, plant and equipment and intangible assets	1,776	1,751
Foreign exchange (gain)/loss	(1,305)	129
Operating lease rentals:		
Hire of plant and machinery	3	2
Other operating lease rentals payable:		
Property	1,002	738
Other	846	644
Auditors' remuneration		
Audit of these financial statements	22	21
Amount received by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	41	39
	63	60

Amounts paid to the Company's auditor in respect of services to the Company, 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.

4 Employees

The average number of persons employed by the Group (including Directors) was:	2009	2008
Research and Development	374	319
Production	34	26
Administration	54	50
Sales and Marketing	49	41
	511	436

The aggregate payroll costs of these persons were:	£'000	£'000
Wages and salaries	19,052	17,893
Social security costs	2,118	2,003
Other pension costs	1,279	885
Share based payment	1,766	1,318
	24,215	22,099

Included in the charge for share based payment of £1,766,000 (2008: £1,318,000) is £63,000 (2008: nil) in respect of the share appreciation rights. The liability at 30 April 2009 in respect of the share appreciation rights is £139,000 (2008: £76,000).

Complete information on the share incentives and shares held by Directors is set out in the Remuneration Report on pages 49-53.

5 Financial Income

	2009 £'000	2008 £'000
Interest receivable and similar income	149	428

6 Financial Expenses

	2009 £'000	2008 £'000
Loan repayable after more than five years	27	44
Bank overdraft repayable within five years	2	5
	29	49

7 Taxation

	2009 £'000	2008 £'000
Current tax expense		
Foreign tax	223	131
Deferred tax credit		
Benefit from previously unrecognized tax assets	(5,627)	(514)
Tax credit for period	(5,404)	(383)

Reconciliation of the notional tax charge at UK standard rate to the actual tax charge:

Profit before taxation	2,722	1,881
Notional tax charge at UK standard rate of 28% (2008: 30%)	762	564
Permanent differences	(495)	30
Transfer from unrecognized tax assets	(267)	(594)
Benefit from previously unrecognized tax assets	(5,627)	(514)
Withholding tax	223	131
Tax credit for period	(5,404)	(383)

	2009 £'000	2008 £'000
Recognized deferred tax assets/(liabilities)		
Recognized deferred tax assets		
Tax Losses	2,510	—
Share Options	1,195	—
Capital Allowances	1,739	—
Other differences	16	—
	5,460	—

£5,460,000 of previously unrecognized tax assets were recognized in the year as, based on an assessment of forecasts of future taxable profits, management considered it probable that future taxable profit will be available against which they can be utilized.

Recognized deferred tax liabilities

Investment held for sale	(757)	(757)
Tax losses	681	514
	(76)	(243)

The deferred tax liability on the investment held for sale is the potential tax liability that arises due to the revaluation of the investment in Frontier Silicon to fair value.

	2009 £'000	2008 £'000
Unrecognized deferred tax assets		
Deferred tax assets have not been recognized in respect of the following items (reported at the applicable tax rate):		
Deductible temporary differences	—	2,070
Tax losses	12,533	13,548
	12,533	15,618

£9,427,000 (2008: £12,966,000) of these losses relate to the UK. These are not subject to time expiry and are available for utilisation against profit arising in the UK in future periods. The balance of £3,106,000 (2008: £2,652,000) relates to losses in the US which expiry progressively over the next 15 years. These are available for utilisation against profit arising in the US in future periods.

8 Earnings Per Share

	2009 £'000	2008 £'000
Profit attributable to shareholders	8,126	2,264
	2009 Shares 000's	2008 Shares 000's
Weighted average number of shares in issue	222,571	218,454
Effect of dilutive shares: Employee Incentive Schemes	8,814	11,733
Weighted average number of shares potentially in issue	231,385	230,187
	2009	2008
Earnings per share		
Basic	3.7p	1.0p
Diluted	3.5p	1.0p

9 Intangible Assets

	Goodwill £'000	Software, Patents and Trademarks £'000	Total £'000
Cost			
At 1st April 2007	7,129	8,015	15,144
Additions	—	402	402
At 30th April 2008	7,129	8,417	15,546
At 1st May 2008	7,129	8,417	15,546
Additions	—	720	720
At 30th April 2009	7,129	9,137	16,266
Amortisation			
At 1st April 2007	3,517	6,755	10,272
Charge for the year	—	574	574
At 30th April 2008	3,517	7,329	10,846
At 1st May 2008	3,517	7,329	10,846
Charge for the period	—	511	511
At 30th April 2009	3,517	7,840	11,357
Net book value at 1st April 2007	3,612	1,260	4,872
Net book value at 30th April 2008	3,612	1,088	4,700
Net book value at 30th April 2009	3,612	1,297	4,909

Goodwill was acquired through acquisitions and relates to the Technology business, which is considered to be a single cash-generating unit. During the period the Group tested its balance of goodwill for impairment in accordance with IAS 36, "Impairment of assets". The test was based on a calculation of the recoverable amount based on value in use, using projected cash flows for the Technology business.

The key assumptions in the value in use calculations were:

Period over which the Directors have projected cashflows – a five year forecast period is used which is based on management forecasts of future profits, with an assumed terminal growth rate after 2014 of 2.5% per annum (2008: 3.0%). The terminal growth rate is assessed taking into account general economic conditions.

Forecast revenue growth – the revenue projections are consistent with those used by the Group for financial planning purposes.

Forecast operating margins – the operating margin projections are consistent with those used by the Group for financial planning purposes.

Discount rate – future cash flows are discounted at a rate of 15% (2008: 15%).

Whilst it is conceivable that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable changes to key assumptions would result in an impairment of goodwill, such is the margin by which the estimated fair value exceeds the carrying value.

10 Property, Plant and Equipment

	Freehold Land and Buildings £'000	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost				
At 1st April, 2007	1,111	1,572	8,336	11,019
Additions	—	586	1,426	2,012
Disposals	—	—	(1)	(1)
At 30th April, 2008	1,111	2,158	9,761	13,030
At 1st May, 2008	1,111	2,158	9,761	13,030
Additions	4	414	1,072	1,490
Disposals	—	(5)	(1,176)	(1,181)
At 30th April, 2009	1,115	2,567	9,657	13,339
Depreciation				
At 1st April, 2007	54	871	6,303	7,228
Charge for the year	20	139	1,018	1,177
Disposals	—	—	(1)	(1)
At 30th April, 2008	74	1,010	7,320	8,404
At 1st May, 2008	74	1,010	7,320	8,404
Charge for the period	19	213	1,033	1,265
Disposals	—	(5)	(1,176)	(1,181)
At 30th April 2009	93	1,218	7,177	8,488
Net book value at 1st April, 2007	1,057	701	2,033	3,791
Net book value at 30th April 2008	1,037	1,148	2,441	4,626
Net book value at 30th April, 2009	1,022	1,349	2,480	4,851
			2009 £'000	2008 £'000
The net book value of freehold land and buildings comprises:				
Land			165	165
Buildings			857	872
			1,022	1,037

11 Investment

	2009 £'000	2008 £'000
Trade investment classified as available for sale	4,094	4,611

The investment relates to the Group's holding in Frontier Silicon and FutureWaves, companies which are not listed.

The value of the holding in Frontier Silicon at 30 April 2009 remains £3,605,000. The holding was valued by means of a discounted cashflow forecast based on a five year profit forecast, an assumed terminal growth rate after 2014 of 2.5% per annum (2008: 3.0%) and using a discount rate of 15% (2008: 15%).

As at 30 April 2009, the Group had committed to exchange its investment in FutureWaves for 6,979,612 shares in Toumaz Holdings, a company listed on AIM. The value of these shares in Toumaz Holdings was £489,000 as at 30 April 2009 and this is considered to be equal to the fair value of the FutureWaves investment as at 30 April 2009 (2008: £1,006,000). The FutureWaves holding has therefore been written down from the value originally recognized and this write down of £517,000 has been booked to the income statement in the current year.

Details of the Group'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	Country of incorporation and of operation	Type of shares	Percentage of issued share capital held
Imagination Technologies Limited	UK	Ordinary	100%
PowerVR Technologies Limited*	UK	Ordinary	100%
Metagence Technologies Limited*	UK	Ordinary	**100%
Enigma Technologies Limited*	UK	Ordinary	100%
Videologic Systems Limited*	UK	Ordinary	100%
Cross Products Limited*	UK	Ordinary	100%
PURE Digital Limited*	UK	Ordinary	**100%
Videologic GmbH	Germany	Ordinary	**100%
Imagination Technologies Inc	USA	Ordinary	**100%
Imagination Technologies KK	Japan	Ordinary	100%
Imagination Technologies India Private Limited	India	Ordinary	**100%
PURE Australasia Pty Ltd	Australia	Ordinary	**100%

All of the above companies are included in the Group financial statements. *non-trading **indirect holding

12 Inventories

	2009 £'000	2008 £'000
Raw materials and components	1,132	554
Finished goods	2,591	4,575
	3,723	5,129

Provisions of £796,000 (2008: £422,000) recognized in operating expenses were made against inventories. During the period, £838,000 (2008: £304,000) of the provision against inventories was utilized; £406,000 (2008: £32,000) for the write-down of inventories to net realisable value and £432,000 (2008: £272,000) for the write off of inventories.

Raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales in the period amounted to £20,600,000 (2008: £20,351,000).

13 Trade and Other Receivables

Trade and other receivables – current assets

	2009 £'000	2008 £'000
Trade receivables	9,555	6,586
Prepayments and accrued income	8,023	5,964
Other receivables	424	438
	18,002	12,988

Provisions for impairment of £75,000 (2008: £40,000) recognized in operating expenses were made against receivables. £65,000 (2008: £nil) of provisions were utilized by writing down the gross value of receivables.

Trade receivables include a receivable of £1,687,000 from Toumaz Holdings. As at 30 April 2009, Toumaz Holdings has an option to settle this receivable by issuing ordinary shares in Toumaz Holdings to the Group. This option was exercised by Toumaz Holdings in May 2009.

Other receivables – non-current assets

	2009 £'000	2008 £'000
Loan	795	795

The loan balance of £795,000 (2008: £795,000) represents a Loan Note from Frontier Silicon which is non-interest bearing. The Loan Note is redeemable in the event of a sale or listing of Frontier Silicon, or at the discretion of Frontier Silicon, or the Loan note holders in Frontier Silicon, subject to approval by a majority of the Loan Note holders.

14 Cash and Cash Equivalents

	2009 £'000	2008 £'000
Cash at bank – short term deposits	11,684	5,737
Cash at bank – current account	2,890	1,504
Cash and cash equivalents as per Consolidated Balance Sheet	14,574	7,241
Cash and cash equivalents as per Consolidated Cash Flow Statement	14,574	7,241

15 Trade and Other Payables

	2009 £'000	2008 £'000
Trade payables	4,106	2,823
Other payables including tax and social security	635	619
Accruals and deferred income	5,505	3,632
	10,246	7,074

16 Long Term Borrowings

	2009 £'000	2008 £'000
Current Liabilities		
Current portion of long term borrowings	58	30
Non-current liabilities		
Long term borrowings	430	500
	488	530
Borrowings to be repaid within 1 year	58	30
Borrowings to be repaid between 1 and 5 years	232	146
Borrowings to be repaid over 5 years	198	354
	488	530

The loan is secured on a freehold building. The loan repayments are fixed. The unexpired term of the loan is 10 years and the interest rate on the loan floats at 2.0% above base rate. The Group considers the requirements for long term borrowings by assessing the future cash flows of the business.

17 Called Up Share Capital

Ordinary shares of 10p each	Authorised		Allotted, called up and fully paid	
	No.	£'000	No.	£'000
At 1 May 2008	300,000,000	30,000	219,261,320	21,926
Issued during period	—	—	9,124,841	913
At 30 April 2009	300,000,000	30,000	228,386,161	22,839

8,200,000 ordinary shares were issued fully paid on 18 December 2008 to Apple Inc. pursuant to a placement (note 18).

924,841 (2008: 1,784,286) ordinary shares were issued fully paid during the course of the year pursuant to the terms of various Employee Share Option Schemes and the exercise of warrants (note 18).

18 Capital and Reserves

	Share Capital £'000	Share Premium £'000	Other Capital Reserve £'000	Warrant Reserve £'000	Merger Reserve £'000	Revaluation Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 April 2007	21,748	50,321	593	830	2,402	6,414	(12)	(50,204)	32,092
Total recognized income and expense	—	—	—	—	—	(4,179)	30	2,264	(1,885)
Equity settled share-based remuneration	—	—	—	—	—	—	—	1,242	1,242
Acquisition consideration	—	—	4	(4)	—	—	—	—	—
Issue of new shares	178	616	—	—	—	—	—	—	794
At 30 April 2008	21,926	50,937	597	826	2,402	2,235	18	(46,698)	32,243
As at 1 May 2008	21,926	50,937	597	826	2,402	2,235	18	(46,698)	32,243
Total recognized income and expense	—	—	—	—	—	—	116	8,126	8,242
Share-based remuneration	—	—	—	—	—	—	—	1,703	1,703
ESP awards exercised	—	—	—	—	—	—	—	(1)	(1)
Issue of new shares	913	2,498	—	—	—	—	—	—	3,411
At 30 April 2009	22,839	53,435	597	826	2,402	2,235	134	(36,870)	45,598

The movement on the Share Capital and Share Premium reserve in the period arises from the issue of:

- i) 8,200,000 ordinary shares fully paid issued to Apple pursuant to a placement. The market price of the shares immediately prior to placement was 39p. The consideration for the shares was £3,198,000 settled in cash.

ii) 924,841 ordinary shares fully paid pursuant to the terms of various Employee Share Option Schemes and the exercise of warrants. The consideration for the shares was £213,000.

The balance on the Other Capital Reserve reflects the value of warrants issued in respect of the acquisition of Enigma Limited. The balance on the Warrant Reserve reflects the value of warrants outstanding in respect of the acquisition of Enigma Limited. The valuation of the warrants for both reserves reflects part consideration for the acquisition of Enigma Limited in March 2000 and is by reference to the share price at the date of acquisition. At 30th April 2009, there were 184,954 warrants (2008: 184,954) outstanding at a grant price of 10p.

The Merger Reserve arose in the Group reconstruction in 1994 prior to its flotation.

The Revaluation Reserve comprises the cumulative net change in the fair value of the trade investments until the investments are derecognized.

The Translation Reserve reflects the exchange differences from retranslation of the opening net investments in overseas subsidiaries to closing rate and translation of the results for the year from average rates to the closing rate.

19 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Within one year	950	838	855	693
In two to five years	2,781	2,602	1,621	503
After five years	2,578	2,940	—	—
	6,309	6,380	2,476	1,196

Other operating leases include the rental of software and vehicles.

20 Capital Commitments

At 30 April 2009, the Group had contracted for capital commitments of £151,000 (2008: £521,000).

21 Financial Instruments

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Categories of financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized in respect of each class of financial assets, financial liability and equity instrument are disclosed in Note 1 to the Financial Statements.

	Notes	2009 £'000	2008 £'000
Financial assets			
Loans and receivables			
Trade and other receivables	13	9,979	7,024
Loans	13	795	795
Cash and cash equivalents	14	14,574	7,241
Available for sale investments	11	4,094	4,611
Total financial assets		29,442	19,671

	Notes	2009 £'000	2008 £'000
Financial liabilities			
Bank loan	16	488	530
Trade and other payables	15	4,741	3,442
Total financial liabilities		5,229	3,972

Market Risk

Market risk is the risk that changes in the market prices, such as foreign currency exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group's activities expose it mainly to the financial risks of changes in foreign currency exchange rates and changes in interest rates. The valuation of the available for sale investment in Frontier Silicon is subject to fluctuation and is dependent on the valuation by means of a discounted cash flow forecast based on a five year profit forecast, an assumed terminal growth rate after 2014 of 2.5% per annum (2008: 3.0%) and using a discount rate of 15% (2008: 15%).

The valuation is sensitive to the profit forecast, the discount rate and the terminal growth rate assumptions. A 5% increase or decrease in the pre-tax profit forecast would increase or decrease the valuation by circa £512,000. An increase or decrease in the discount rate of 1% would decrease or increase the valuation by circa £1,023,000. An increase or decrease in the terminal growth rate would increase or decrease the valuation by circa £342,000. An increase in the valuation would be credited to equity. A reduction in the valuation to £733,000, the cost of the investment, would be a charge to equity, with any reduction below £733,000 being recognized in the income statement.

As at 30 April 2009, the Group had committed to exchange its investment in FutureWaves for 6,979,612 shares in Toumaz Holdings, a company listed on AIM. The value of the shares in Toumaz Holdings was £489,000 as at 30 April 2009 and this is considered to be equal to the fair value of the FutureWaves investment as at 30 April 2009 (2008: £1,006,000). The FutureWaves holding has therefore been written down from the value originally recognized and this write down of £517,000 has been booked to the income statement in the current year.

a) Foreign currency risk

The Group transacts license and development agreements with customers and purchases of products for PURE Digital primarily in US dollars and, therefore, the Group's earnings are exposed to fluctuations in foreign exchange rates. The Group reviews its foreign exchange exposure on a regular basis and, if there is a material exposure to exchange rate fluctuations and the Board considers it appropriate, the Group will reduce the risk by currency hedging on net receivable/payable balances. Forward contracts are entered into with the objective of matching their maturity with currency receipt. During the period and as at 30 April 2009 and 30 April 2008 there were no outstanding currency contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets 2009 £'000	Assets 2008 £'000	Liabilities 2009 £'000	Liabilities 2008 £'000
Sterling	18,159	9,978	2,876	2,638
U.S. Dollars	10,282	9,329	1,775	1,219
Euro	854	146	547	26
Other	147	218	31	89
	29,442	19,671	5,229	3,972

The Group has a number of overseas business operations and operates in a number of foreign currencies which give rise to transactional and translational foreign exchange risk. The most important foreign currency to the Group is the US Dollar.

Foreign currency sensitivity analysis

The Group transacts a large proportion of its revenues and costs in US Dollars. Taking all income and expenditure in US Dollars into account, management have appraised that for the financial year to 30 April 2009, each additional one cent increase or decrease in the US Dollar exchange rate against Sterling would have decreased or increased revenues by circa £257,000 and profit by circa £30,000.

b) Interest rate risk

The Group's earnings may be affected by changes in interest rates available on bank deposits. The Group aims to maximize returns from funds held on deposit and uses market deposits with major clearing banks accordingly. With the current level of bank deposits, the impact of a change in interest rates is not considered material.

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their average effective interest rate at the reporting date and the periods in which they mature or, if earlier, reprice.

	Effective interest rate %	0 < 1 year £'000	2009 > 1 year £'000	Total £'000	Effective rate %	< 1 year £'000	2008 > 1 year £'000	Total £'000
Cash and cash equivalents								
Sterling		10,626	—	10,626		1,490	—	1,490
US Dollars		3,128	—	3,128		5,596	—	5,596
EU currencies		678	—	678		75	—	75
Yen		71	—	71		32	—	32
Rupees		50	—	50		30	—	30
Yuan		13	—	13		18	—	18
Australian \$		8	—	8		—	—	—
		14,574	—	14,574		7,241	—	7,241
Floating rate								
	0.0%	2,889	—	2,889	1.7%	1,504	—	1,504
Fixed rate								
	0.2%	11,685	—	11,685	2.6%	5,737	—	5,737
		14,574	—	14,574		7,241	—	7,241
Bank Loan								
Secured bank loan – Sterling*	2.50%	(58)	(430)	(488)	7.00%	(30)	(500)	(530)
		(58)	(430)	(488)		(30)	(500)	(530)

* At floating rate. See note 16 for details.

The fixed rate cash deposits were placed with banks throughout the year and earned interest of between 0.1% and 5.2%. Floating rate cash earns interest based on LIBID equivalents.

Short term receivables and payables are not interest bearing with the exception of the short term element of the long term loan.

The long term loan, which is repayable over 10 years, incurred interest of between 2.5% and 7.0%.

Interest rate sensitivity analysis

In the financial year to 30 April 2009, if interest rates had been 100 basis points higher and all other variables were held constant, the Group's profit would have been increased by circa £108,000. Similarly, if interest rates had been 100 basis points lower and all other variables were held constant, the Group's profit would have been decreased by circa £76,000.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment of liquid funds.

The Group limits its exposure to credit risk by only investing in liquid securities and only with counter parties that have a high credit rating.

Capital Risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders as well as sustaining the future development of the business. In order to maintain or adjust the capital structure, the Group may consider the total amount of dividends paid to shareholders, return capital to shareholders, issued new shares or sell assets to reduce debt. The Group's overall strategy remains unchanged from the previous financial year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 16, cash and cash equivalents and equity attributable to the parent, comprising share capital, reserves and retained earnings as disclosed in Notes 17 and 18.

Trade Receivables

The exposure to credit risk is mitigated by selling to a diverse range of customers. The Group has implemented policies that require appropriate credit checks on potential customers prior to sales taking place. At the balance sheet date there were no significant concentrations of credit risk either by customer or by geography. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

	Gross 2009 £'000	Impairment 2009 £'000	Gross 2008 £'000	Impairment 2008 £'000
Ageing of trade receivables:				
Not past due	7,658	—	3,771	—
Past due 0 – 90 days	1,608	—	2,762	—
Past due greater than 90 days	339	(50)	93	(40)
	9,605	(50)	6,626	(40)

Trade receivables that are less than three months overdue are generally not considered impaired. Receivables more than three months overdue are considered on a line by line basis and a provision is made where recovery is considered doubtful.

No other financial assets are past due.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. To minimize this risk the Group only invests funds in liquid securities. As a contingency, the Group maintains the following lines of credit:

- a £5 million overdraft facility
- an invoice discounting arrangement on PURE Digital invoices

The following table is drawn up based on undiscounted contractual maturities including both interest and principal cashflows.

	Carrying amount £'000	Contractual Cashflows £'000	1 year £'000	Less than 1-2 years £'000	2-5 years £'000	More than 5 years £'000
April 2009						
Bank loan	488	543	69	69	206	199
Trade and other payables	4,741	4,741	4,741	—	—	—
	5,229	5,284	4,810	69	206	199

	Contractual amount £'000	Contractual Cashflows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
April 2008						
Bank loan	530	765	67	67	211	420
Trade and other payables	3,442	3,442	3,442	—	—	—
	3,972	4,207	3,509	67	211	420

Fair values of financial instruments

Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between two informed and willing parties and is calculated by reference to market rates discounted to current value

	Notes	2009 Carrying amount and fair value £'000	2008 Carrying amount and fair value £'000
Financial assets:			
Trade and other receivables	13	9,979	7,024
Cash and cash equivalents	14	14,574	7,241
Available for sale investments	11	4,094	4,611
Other Receivables:			
Loan note	13	795	795
Financial liabilities:			
Long term borrowings	16	(488)	(530)
Trade and other payables	15	(4,741)	(3,442)

Assumptions used in estimating the fair values of financial instruments reflected in the table above:

Cash, cash equivalents and bank overdraft

The fair value approximates to book value due to the short term maturity of these instruments.

Available for sale investments

In general, 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. However, as at 30 April 2009, the Group had committed to exchange its investment in FutureWaves, an unquoted investment, for a fixed number of shares in Toumaz Holdings, a company listed on AIM. The value of these shares in Toumaz Holdings as at 30 April 2009 was considered to be equal to the fair value of the FutureWaves investment as at 30 April 2009.

Loan Note

The Loan Note in Frontier Silicon is non-interest bearing. The time period for redemption of the Loan Note is subject to the discretion of Frontier Silicon, Loan Note holders or a sale or listing and therefore is undetermined. Fair value is therefore assessed to approximate to book value.

Long term borrowings

The fair value approximates to book value as this instrument is at a variable interest rate.

22 Contingent Liabilities

The Group had no contingent liabilities at 30 April 2009 or 30 April 2008.

23 Employee Benefits

Pension

The Group participates in a number of defined contribution pension plans in the UK. The assets of the schemes are held separately in independently administered funds. There were no outstanding contributions at the balance sheet date.

Share-based payments

Share options

The following options have been granted under the Imagination Technologies Key Employee Share Option Schemes, Savings Related Share Option Scheme and Long Term Incentive Plan and remain outstanding at 30 April 2009.

Year of Issue	Outstanding at 30 April 2009	Exercise price	Date from which first exercisable	Expiry date
1999	313,000	195p	2002	2009
2000	879,500	212p	2003	2010
2000	*50,000	212p	2002	2010
2001	*1,300,000	64p	2003	2011
2001	1,153,211	46p	2004	2011
2002	1,040,500	19p	2005	2012
2003	1,104,750	34.5p	2006	2013
2003	75,500	60p	2006	2013
2004	20,000	83p	2007	2014
2004	208,500	82p	2007	2014
2005	2,315,563	64.25p	2008	2015
2005	1,219,294	67.5p	2008	2015
2006	75,000	55p	2009	2016
2006	*155,000	55p	2009	2016
2006	895,505	60.5p	2009	2010
2007	170,698	102p	2010	2011
2008	1,644,948	55.6p	2011	2012
Total	12,620,969			

Options marked* have been granted under the Long Term Incentive Plan.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
Outstanding at the beginning of the period	68p	18,141,993	65p	19,425,854
Exercised during the period	48p	(910,207)	44p	(1,783,286)
Granted during the period	55.6p	1,698,505	1.02p	987,740
Lapsed during the period	65p	(6,309,322)	92p	(488,315)
Outstanding at the end of the period	70p	12,620,969	68p	18,141,993
Exercisable at the end of the period	49p	6,631,252	46p	8,107,175

The weighted average share price during the period was 65.5p (2008: 107p)

The options outstanding at the year end have an exercise price in the range of 19p to 212p and a weighted average contractual life of 3.7 years.

Employee Share Plan

The following awards have been granted under the Imagination Technologies Employee Share Plan and remain outstanding at 30 April 2009.

	Outstanding at 30 April 2009	Date from which first exercisable	Expiry date
Year of Issue			
2006	1,771,380	2009	2009
2007	2,014,050	2010	2010
2007	47,360	2010	2010
2008	235,951	2011	2011
2008	4,596,240	2011	2011
Total	8,664,981		

The Company has share option schemes and an employee share plan scheme, details of which are contained in the Remuneration Report.

In accordance with IFRS 2, the fair value of services received in return for share options and employee share plan awards granted to employees is measured by reference to the fair value of share options and employee share plan awards granted. In accordance with the transitional provisions in IFRS 1 and IFRS 2, the recognition and measurement principles in IFRS 2 have not been applied to share option grants made prior to 7 November 2002 which had not vested by 1 April 2005. The estimate of the fair value of the services is measured based on the Black-Scholes or Monte Carlo Simulation models, financial models used to calculate the fair value of options and awards under the employee share plan.

The assumptions used in the calculation of the fair value of options are set out below:

Date of share option grant	Dec 2002	May 2003	Nov 2003	May 2004	Jun 2004	Jan 2005	Dec 2005
Share price at grant date (pence)	19	34.5	60	83	82	64.25	67.5
Exercise price (pence)	24-28	43-52	75-90	104-124	102-123	80-96	84-101
Expected volatility	60%	60%	60%	60%	60%	60%	60%
Risk free interest rate	4.4%	3.9%	4.9%	5.1%	5.2%	4.4%	4.4%
Time to maturity (years)	5	5	5	5	5	5	5
Fair value per option (pence)	9.4	17.0	30.2	42.0	41.5	31.8	34.4

Date of share option grant	Jun 2006	Sep 2006	Sep 2007	Sep 2008
Share price at grant date (pence)	55	88	113	69.5
Exercise price (pence)	69-82	—	—	—
Expected volatility	60%	60%	41%	46%
Risk free interest rate	4.5%	4.5%	5.8%	4.4%
Time to maturity (years)	5	3	3	3
Fair value per option (pence)	28.0	34.7	44.5	31.2

The assumptions used in the calculation of the fair value of the employee share plan awards are set out below:

Date of employee share plan grant	Sep 2006	Jul 2007	Aug 2007	Jan 2008	Oct 2008
Share price at grant date (pence)	70.75	128.5	127.5	119	48
Expected volatility	60%	41%	41%	41%	49%
Risk free interest rate	4.5%	5.8%	5.8%	5.8%	3.4%
Time to maturity (years)	3	3	3	3	3
Fair value per option (pence)	53.0	78.4	77.6	72.6	34.2

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

24 Related Parties

Identity of related parties

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

Key management personnel comprise the Directors. In addition to their salaries, the Group also provides non-cash benefits to Directors and contributes to post-employment benefit schemes on their behalf. Directors also participate in the Group's share incentive programmes. The share based payments are valued at their fair value at the date of grant. Full details of Directors' compensation, including post-employment benefits is given in the Remuneration Report.

The key management personnel compensations are as follows:

	2009 £'000	2008 £'000
Emoluments	514	532
Pension contributions	90	26
Share based payments	197	46
Total	801	604

Details of key management's interests in the Company's shares and share options are set out in the Remuneration Report.

During 2009 and 2008, no member of the Board of Directors had a personal interest in any business transactions of the Group.

Imagination Technologies Group plc Parent Company Balance Sheet

	Notes	As at 30 April 2009 £000	As at 30 April 2008 £000
Fixed assets			
Investment in subsidiary undertakings	27	25,744	23,978
		25,744	23,978
Current assets			
Debtors	28	54,344	51,479
Cash		85	42
		54,429	51,521
Current liabilities			
Creditors: amounts falling due within one year	29	(324)	(313)
Net current assets		54,105	51,208
Net assets		79,849	75,186
Capital and reserves			
Called up share capital	32	22,839	21,926
Share premium account	33	53,435	50,937
Other capital reserve	33	597	597
Warrant reserve	33	826	826
Share based payment reserve	33	4,190	2,487
Retained earnings	33	(2,038)	(1,587)
Equity shareholders' funds	34	79,849	75,186

These financial statements were approved by the Board of Directors on 24 June, 2009 and were signed on its behalf by:


G S Shingles
Director

25 Accounting Policies

The parent company financial statements present information about the Company as a separate entity and not about its Group.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK Accounting Standards and under the historical accounting rules. The following principal accounting policies have been applied consistently throughout the period and preceding year in dealing with items which are considered material in relation to the Company's financial statements.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company made a loss for the year of £451,000 (2008: £373,000).

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is included in the consolidated accounts which it has prepared.

The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with its subsidiaries.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provisions for impairment.

Details of the Company's subsidiary undertakings are included in Note 11 of the Group financial statements.

Share options

The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For cash-settled share-based payment transactions, the fair value of the amount payable to the employee is recognized as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognized in the profit and loss account.

As the Company grants options over its own shares to the employees of its subsidiaries, in accordance with UITF 44, it recognizes an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognized in its subsidiary's financial statements with the corresponding credit being recognized directly in equity.

Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognized in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Related Parties

The Company has a related party relationship with its subsidiaries (see Note 11) and with its Board of Directors (see the Remuneration Report pages 49 to 53).

26 Employees

The Company does not employ any staff.

Details of Directors' remuneration are set out in the Remuneration Report. The Non-Executive Directors are remunerated by the Group.

27 Investments in Subsidiary Undertakings

	2009 £'000	2008 £'000
Cost and net book value		
At beginning of period	23,978	22,660
Addition – Share based payment to employees of subsidiary	1,766	1,318
At end of period	25,744	23,978

28 Debtors

	2009 £'000	2008 £'000
Prepayments and accrued income	13	27
Amounts owed by subsidiary undertakings	54,331	51,452
	54,344	51,479

29 Creditors: Amounts falling due within one year

	2009 £'000	2008 £'000
Accruals and deferred income	324	313

30 Operating leases

The Company has no operating lease commitments (2008: nil).

31 Capital Commitments

At 30 April 2009, the Company had no capital commitments (2008: £nil).

32 Called Up Share Capital

Details of the Company's called up share capital are shown in Note 17 of the Group financial statements.

33 Reserves

	Share Premium £'000	Other Capital Reserve £'000	Warrant Reserve £'000	Share based payment reserve £'000	Retained Earnings £'000
As at 1 May 2008	50,937	597	826	2,487	(1,587)
Result for financial period	—	—	—	—	(451)
Premium on issue of new shares	2,498	—	—	—	—
Credit in respect of Equity-settled share-based payment	—	—	—	1,703	—
As at 30 April 2009	53,435	597	826	4,190	(2,038)

34 Reconciliation of Movements in Equity Shareholders' Funds

	2009 £'000	2008 £'000
Equity shareholders' funds at the start of the period	75,186	73,523
Loss for the financial year / period	(451)	(373)
Credit in respect of FRS 20 employee share scheme charges	1,703	1,242
Issue of share capital	3,411	794
Equity shareholders' funds at the end of the period	79,849	75,186

Five Year Record

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Income Statement					
Revenue	64,088	60,022	48,062	35,273	30,583
Cost of sales	(21,755)	(21,413)	(20,913)	(16,231)	(12,947)
Gross profit	42,333	38,609	27,149	19,042	17,636
Research and development expenses	(31,114)	(29,110)	(23,419)	(20,649)	(19,381)
Sales and administration expenses	(8,100)	(7,997)	(6,250)	(5,549)	(4,953)
Write down of investments	(517)	—	—	—	—
Total operating expenses	(39,731)	(37,107)	(29,669)	(26,198)	(24,334)
Operating profit/(loss)	2,602	1,502	(2,520)	(7,156)	(6,698)
Net financing income	120	379	219	286	260
Profit/(loss) before taxation	2,722	1,881	(2,301)	(6,870)	(6,438)
Taxation	5,404	383	(244)	(490)	805
Profit/(loss) for the financial year/period	8,126	2,264	(2,545)	(7,360)	(5,633)
Earnings per share					
Basic	3.7p	1.0p	(1.2p)	(3.7p)	(3.0p)
Diluted	3.5p	1.0p	(1.2p)	(3.7p)	(3.0p)
Balance Sheet					
Non-current assets	20,109	14,732	15,690	14,542	9,309
Current assets	36,299	25,358	25,714	19,083	17,194
Total Assets	56,408	40,090	41,404	33,625	26,503
Current liabilities	(10,304)	(7,104)	(8,783)	(6,896)	(8,111)
Non-current liabilities	(506)	(743)	(529)	(557)	(588)
Total Liabilities	(10,810)	(7,847)	(9,312)	(7,453)	(8,699)
Net assets	45,598	32,243	32,092	26,172	17,804
Called up share capital	22,839	21,926	21,748	20,706	18,905
Capital reserves	59,629	57,015	60,548	53,843	40,243
Retained earnings	(36,870)	(46,698)	(50,204)	(48,377)	(41,344)
Total equity	45,598	32,243	32,092	26,172	17,804

These tables are for representative purposes only. Full details can be found in the Company's Annual Reports.

Data and projections shown on pages 1-39 are the product of consolidated partner data, analyst information and Imagination Technologies research.

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