

**Imagination Technologies Group Limited**

**Annual Report – December 2017**



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## STRATEGIC REPORT

## Chairman's Statement

2017 proved to be a pivotal year in Imagination's history.

In April, our largest customer informed us that they plan to no longer be using our solutions in some of their new products and therefore royalties could rapidly decline from some point in 2H/2018. In May, the Company announced that it was seeking offers for MIPS and Enigma, and in June it launched a formal sale process of the group.

These events culminated in the September announcement of the sale of MIPS to Tallwood Ventures and the acquisition of the Imagination Group by funds controlled by Canyon Bridge LLP. These transactions completed in October and November 2017 respectively.

These events created substantial uncertainty as to the direction and strategy of the business. As a direct result licensing revenue in 2017 was lower than we had hoped. Our customers, however, continue to have confidence in our technology and we expect to see a rebound in licensing activity in 2018 and beyond. I'd like to thank our people who have stayed loyal to the Company through this period of change. Their dedication, skill and professionalism are vital to our success.

Canyon Bridge invested in Imagination for the long term. It sees substantial opportunities for the Company to continue to develop industry-leading graphics technology. Furthermore, it is exceptionally well positioned to take advantage of the development of artificial intelligence (AI) solutions in embedded systems, machine vision, surveillance, autonomous driving or drone applications.

Canyon Bridge will continue, therefore, to bring to bear its financial resources as well as its industry network to support Imagination to capture market share and enter new segments in the rapidly developing global semiconductor space.

I was delighted when the Company appointed Dr Leo Li, a leading and proven executive with experience of running globally-successful semiconductor companies, to the position of CEO. Since his appointment, Leo has taken decisive action to refocus the business around graphics and AI, and bring the business together around its new strategy.

As is common when a public company is acquired, the previous Chairman and board of directors have been replaced. I would like to thank them on behalf of the Company for their outstanding service and unwavering dedication throughout a challenging period of the Company's history.

  
**Raymond Bingham**  
Executive Chairman

## Business Model, Strategy and Products

### What we do

At Imagination, we create and license market-leading processor solutions for graphics, vision & AI processing, and multi-standard communications. They are PowerVR graphics, PowerVR vision & AI and Enigma connectivity.

Our technologies are instrumental in key segments such as mobile, consumer, automotive, IoT, AR/VR, security/surveillance and AI. Our IP is extensively tested and verified, offering our licensing partners low risk solutions accelerating their time to market. Our customer and solutions engineering teams have the latest in tools. And we give extensive global support to our customers including design optimisation kits, reference software and education.

Innovation and collaboration are in our DNA. Our goal is to help create a smarter, more connected world that enriches the lives of billions of people.

### Business Model

Our business model is simple. We invest in research and development to create and provide intellectual property (IP), tools and software for our customers. We receive payments when we license our technologies to customers. They then take our IP and integrate it within their products. Royalties are then received from customers when they ship products using our IP.

Our business model means we only succeed if our customers succeed. We receive a royalty payment when companies create products in volume using our technologies. If our customers do not ship in volume, we don't make a profit. This means we are motivated to work in partnership with our customers and to deliver the support and services they need to reach their target market, on time and in volume.

### Strategy

The objectives of our strategy are to build IP solutions of real scale with customers, across a wide range of markets, where we can provide leading, differentiated offerings and build defensible positions; delivering long-term value to shareholders in the process. We do this by focusing investment on our core IP businesses while providing outstanding service to our customers and rewarding careers to our employees.

Our technology has unique advantages that make it highly desirable. Our reputation is built on innovation. Our focus on low power consumption, the smallest silicon area, and the highest efficiency are three key reasons our technology is the choice of leading chip companies.

It is our intention to excel in IP in order to enable our customers to compete with, and beat, the best-in-class solutions available from silicon vendors today.

## **Our Technologies**

### **PowerVR**

Consisting of a comprehensive range of multimedia IP, from GPUs for graphics and GPU compute, to imaging and vision, PowerVR's technology takes data from sensors or CPUs to screen, delivering stunning images for entertainment, user interfaces and much more. These IP cores combine to create optimized IP platforms that can incorporate customer IP to create highly differentiated, state-of-the-art solutions for all forms of visual experiences from the latest games to smart internet of things (IoT) cameras.

The PowerVR graphics processor (GPU) family leads the market in technological capability, roadmap breadth and ecosystem, setting the benchmark for mobile and embedded GPUs.

PowerVR Vision and AI cores bring new processing capabilities to evolving and emerging markets including mobile, automotive, home entertainment, AR/VR and smart surveillance.

PowerVR Raptor image signal processor (ISP) cores are low-power, highly-configurable, designed for System on a Chip (SoC) integration. The PowerVR Series2NX Neural Network Accelerator (NNA) enables high-performance computation of neural networks at very low power consumption in minimal silicon area.

Either on its own, or taken in combination with our GPU technology, 2NX enables complete and highly flexible standalone hardware IP neural network accelerator solutions for SoCs.

### **Enigma**

The Enigma wireless connectivity family is a collection of ultra-low power sensor and cloud connectivity IP processors, designed specifically to enable the integration of low-power communications in SoCs, such as Wi-Fi and Bluetooth, targeting wearables, IoT and other connected devices that require exceptional battery life and low price points. The Enigma architecture can also enable high-performance on-chip wireless communications with Wi-Fi and Bluetooth connectivity, as well as global DTV, digital radio, and FM receiver capabilities. As well as connectivity IP, we deliver comprehensive RF and software solutions.

## Chief Executive's Review

### Introduction

2017 was a difficult year for Imagination, but one which ended with us finding a new owner with the financial capacity to provide a high level of stability going forwards.

We announced in April 2017 that our largest customer had told us that they were moving away from our technology and that we should expect royalties to decline substantially over the next few years.

At the time, the strategy that we had put in place of focusing on scalable IP solutions, across a variety of end markets in which we could build defensible positions, and focused on our three key areas of graphics, central processors and communications, had been widely supported by customers, staff and shareholders.

The subsequent uncertainty over the future of our business led to a decision to shore up our balance sheet by selling our MIPS and Enigma business units. Through that process we discovered that there was significant interest in the whole Group and decided that the best way to ensure the best return for shareholders was to begin a Formal Sale Process (FSP).

On 22 September we announced the sale of MIPS to Tallwood MIPS Inc for a consideration of \$65m (US) and the recommended offer from CBFI for the Imagination Group for 182 pence in cash per Imagination share, valuing the group at approximately £550m.

Having gained shareholder approval and fulfilled all the regulatory requirements, Imagination shares delisted from the London Stock Exchange at 8.00 am on 3 November 2017. The price represented a premium of approximately 47.4 per cent to the Imagination share price on 21 June 2017, the day before the announcement by Imagination of the start of the FSP, of 123.5 pence per share.

In June 2018, we decided to market our Enigma business unit for sale. We believe that the best focus for Imagination is in the areas enabled by our PowerVR business unit: graphics, compute and AI. It is our conclusion that a sale process is the best way to enable Enigma to accelerate the adoption of its efficient, scalable, and flexible integrated communications IP across a range of growth markets and to continue to deliver end to end solutions and outstanding service to its customers. The sale process is ongoing and we expect a positive outcome.

### Performance over the eight months ending 31 December 2017

On 13 November 2017 we elected to change the end of our financial year to 31 December. We are therefore reporting on the eight months from 1 May to 31 December 2017. Subsequent annual reports will be for twelve month periods aligning with calendar years.

Imagination has received, and expects to continue to receive, significant support from Canyon Bridge as we seek to maintain and advance our position in the semiconductor industry and penetrate new end markets, including opportunities in overseas markets.

Notably Imagination is beginning to leverage Canyon Bridge's international network and experience in the semiconductor industry to increase its international reputation for technology leadership and discover new opportunities.

Licensing revenues were, as we advised, subject to uncertainty caused by the initiation of the formal sale process. While the overall licensing business was down, we do not believe this reflects any underlying weakness in the technology product offering; rather it reflects the limited time we have had to take advantage of the renewed health of the business. We have an aggressive technology R&D activity, with significant

investment, to ensure that we have the right products to intersect with our customers' requirements going forward.

Royalty unit shipments benefited from design wins in 2016 and, adjusted for the shorter reporting period, we saw a modest increase in PowerVR royalty revenues. As expected we continued to receive royalties from our largest customer over the period.

Additionally our overall results have been affected by a decision not to fully implement some cost savings during the sales process.

### **PowerVR**

PowerVR has focused on consolidating its market position and retaining technology leadership. We believe it is the market-leading IP provider for embedded GPU today, with a solution that shows clear competitive benefits.

Our PowerVR business has generated significant profits and cash flows, and we are making sure it has the resources to increase investment in R&D and customer support. We will continue to enable PowerVR to develop its existing high-quality technology with a view to increasing its share in the existing market segments of smartphone and tablet, set-top box, digital TV and automotive, and secondly, to generate further growth by driving artificial intelligence technologies into new opportunities in augmented and virtual reality and machine autonomy.

The PowerVR GPU business closed a number of significant licence deals in 2017 across all market segments, including mobile, automotive and STB/DTV. Despite the slowdown in overall licensing created by the uncertainties around our business, we believe that PowerVR is proving attractive in key applications.

PowerVR 7XT/7XTP GPUs began volume shipments with key customers in 2017, and these volumes will continue to build in 2018. PowerVR 8XE is now shipping in volume, and the first products using our PowerVR Series8XEP cores are now shipping. We expect PowerVR 8XM products to be shipping in high volume soon.

Last year we introduced the new Furian architecture for GPU. Furian-based PowerVR 8XT GPU cores were released in 2017 and we expect to see SoCs in 2018. We expect these technologies to further enable mass market untethered AR/VR devices and new classes of mobile devices such as convertibles, creating future growth opportunity for PowerVR.

In September 2017 the first PowerVR Series9 - the 9XE/XM cores - were launched and RTL provided to lead customers. We expect to see SoCs using Series9 debut in 2018.

PowerVR continues to retain a large share of the automotive infotainment and cluster market segments and this position is pulling PowerVR into ADAS applications. We are developing new cores that specifically target this complex and demanding space.

We are leveraging our GPU experience to create leading neural network accelerators. We continued to make significant investment in AR/VR & AI over the period. We announced our 2NX Neural Network Accelerator (NNA) architecture in September 2017. The PowerVR Neural Network API was publicly released in early 2018, enabling easier software development. We now have a number of licensees for this NNA technology, and have recently announced further members of the 2NX family.

### **Ensigma**

Ensigma offers leading, comprehensive IP cores for connectivity in mobile computing, consumer, automotive, unmanned systems and IoT, with low power capability. The core strengths of the technology are its ability to reduce time-to-market with a complete solution including RF and certification support.



The decision to put our Enigma business unit up for sale comes at a time when the business is anticipating strong unit shipment growth in market segments including TV, drones and computing.

The Enigma technology portfolio is, however, no longer core to our strategic focus on graphics and AI. A sale will enable the talented engineers, along with the division's strong IP, to reach its full potential.

#### **Apple**

We announced in April 2017 that Apple had informed us that it would no longer use the Group's intellectual property in its new products introduced in 15 months to two years' from that time, and as such Imagination will not be eligible to receive royalty payments under the current license and royalty agreement in respect of those new products. At the time of writing this report we remain in discussions with Apple. Imagination has reserved all its rights in respect of Apple's use of Imagination's confidential information and Imagination's intellectual property rights. The impact of the uncertainty relating to future revenue from Apple on accounting for the Group as a going concern is discussed in note 1.

#### **Customers and colleagues**

Imagination has great technology that is very meaningful and relevant to many customers. We are grateful to them for their support through the changes we have gone through, and those still to come. We are also fortunate to have very capable people across our engineering and business staff.

#### **Outlook**

The company has a strong roadmap, and with excellent partnerships around the world we are confident in its future success. Imagination Technologies is already capitalising on the opportunities in China, one of the largest semiconductor markets in the world through new licence deals and design-ins. It is further expanding its PowerVR and AI business from mobile phones to automotive applications.

The financial results for the period reflect a time of transition that certainly affected the speed at which customers were entering into new licensing deals with us. However we are seeing renewed interest now that we are a privately-owned business.

I would like to thank all employees for their hard work and continued support and our former shareholders for their patience during difficult and potentially unsettling times.

I will lead Imagination on the next phase of its journey as a world-leading independent IP supplier building on our commitment to hire the best talent, invest in new technology and acquire and serve customers globally.

I am confident that with the right investment our businesses and people will continue to flourish.



**Liyou Li**

Chief Executive

27 September 2018

## FINANCIAL REVIEW

The following review is for the eight month period from 1 May 2017 to 31 December 2017, following Imagination changing its year end from April to December (comparatives remain for 12 months to 30 April 2017).

Trading wise the eight months to 31 December 2017 was another challenging period for Imagination as explained elsewhere in this report. Revenues and adjusted operating profit from continuing operations were both down on the previous period. However as a result of the sale and leaseback of the Group's HQ and the sale of the MIPS business, the Group became debt free during the period resulting in removal of pressure on the business to make mandatory repayments and meet covenant requirements. On 2 November, the Group was acquired by Canyon Bridge who have set out their long-term strategy as detailed in the Chairman's statement.

The sale of the MIPS business unit in October 2017 to Tallwood Inc resulted in this part of the Group being classified as discontinued operations for the current period, where it made a £8.0m loss, and the restated prior year comparatives, where it made a £4.9m loss. Please see note 16 for further details.

### Revenue

Group revenue from continuing operations for the eight month period ending 31 December 2017 was £71.2m (April 2017: £109.7m).

Within this, licensing revenue was £13.4m (April 2017: £26.6m) with few new deals being signed as customers, naturally, were cautious about committing to our technology whilst the future of the Group was being determined. Since the acquisition, our new owners and directors have held regular meetings with our customers to reassure them of their commitment to investing in our roadmap. Customers' response to these meetings was positive and we expect to see new licensing activity going forward. There also remains significant backlog from historic orders which will be recognized as revenue, in accordance with the Group's revenue recognition policy, over the next two years.

The customer contracts from the IMGWorks business remained with the Group following the transfer of the IMG Works employees, and the System-on-Chip function they provide, during the period to Sondrel (see note 16), and the licensing revenue figures relating to those contracts are included in continuing operations. As stated previously, the Group is not planning to enter into any further contracts of this nature. As at 31 December 2017, certain contracts relating to the IMG Works activity are deemed to be onerous, and a provision for the future contract losses has been made accordingly – see below for further details.

Royalty revenue from continuing operations reduced to £57.6m (April 2017: £83.0m). When compared to the 8 month period to 31 December 2016, royalty revenue was up 1% from £57.2m.

The average sterling / dollar rate during the period weakened by 2% which had an adverse impact on the total revenue for the Group in the period.

### Operating expenses

As shown in the table in note 2, Group operating expenses included when calculating \*adjusted operating profit, associated with continuing operations, decreased to £63.5m (April 2017: £90.0m), however when annualised for a 12 month period, these costs actually increased by 5.9% to £95.3m in the period. The main driver for the increase is cost of sales which showed an annualised £4.9m rise due to the fact that outsourced resource costs relating to the IMG Works contracts noted above are recorded as cost of sales, whereas previously Imagination's lower employee costs were included within staff costs. Staff costs themselves (excluding share based payment costs) were flat with the reduction in headcount in the current period being offset by salary increases.

### Adjusted operating profit

Consistent with prior periods, adjusted profit is used by the business to measure its performance by excluding non-recurring items (items which typically do not occur every year), items relating to acquisitions, disposals and investments, non-cash share-based incentive charges and amortisation of intangible assets acquired from acquisitions. The board adjusts for these items because it considers that doing so provides a clearer view of the operating performance of the business. This period, adjusted operating profit\* for continuing operations was £7.6m (April 2017: £19.7m). A reconciliation of this to the statutory operating loss is given in note 2. The key adjustments made to the operating losses from continuing operations were to add back:

- non-cash share-based incentives charge of £15.3m (April 2017: £8.9m) which has risen significantly due to accelerated vesting of employee share options in connection with the acquisition of the group by Canyon Bridge;
- Costs associated with the sale of the group of £14.9m (April 2017: £nil), predominantly professional fees relating to the acquisition of Imagination by Canyon Bridge;
- Loss on disposal of land and buildings of £5.4m (April 2017: £nil) regarding sale and leaseback of Kings Langley HQ offices;
- onerous contract provision of £10.6m (April 2017: £2.1m) – this reflects further losses that will be made on the remaining IMG Works revenue contracts;

On a statutory basis, the Group made an overall operating loss before tax, for continuing operations, of £41.3m (April 2017: £0.2m loss).

Not accounted for within continuing operations are the results of the MIPS business unit which made a loss for the period of £8.0m (April 2017: £4.9m loss). Included within the £8.0m loss is the gain on the disposal of the MIPS business to Tallwood of £0.2m. In determining the gain, cash consideration of £35.5m (of which £14.9m was received prior to the period end) was offset by the disposal of the goodwill and other intangible assets recognised when Imagination originally acquired MIPS in 2013. (See note 16).

#### **Taxation**

There was an overall tax charge to the Group in the period of £5.9m (April 2017: £18.5m). A £5.5m charge was recognised in the books of Imagination Technologies LLC, prior to it being sold to Tallwood as part of the MIPS transaction, relating to the expected outcome of an FTB audit by the Californian state into the original acquisition of MIPS in 2013. Overseas withholding tax the Group is required to pay on customer remittances from various jurisdictions further increased the tax charge.

The Group continues not to recognise any deferred tax assets in the UK due to the uncertainty of timing of future profits, and there continues to be significant tax losses available in the UK to offset future years' taxable income.

#### **Balance sheet and cash flow**

The balance sheet at 31 December 2017 shows a more healthy position than it has done for a number of years.

The cash generated by the sale and leaseback of the Kings Langley HQ of £32.5m, and the first instalment received of the consideration due from Tallwood for the sale of the MIPS business, enabled the Group to repay its bank debt in full during the period. The Group held £3.0m cash at 31 December, compared to a net debt position of £28.4m at 30 April 2017.

Intangible assets of £9.0m largely comprise the capitalisation of patent acquisition costs. Tangible fixed assets have reduced from £64.0m to £23.0m due to the sale and leaseback of the Kings Langley HQ during the period. The Group does still own freehold land and buildings in the form of its data centre in Hemel Hempstead and office in Chepstow which make up £11.8m of the £23.0m balance.

Net current assets have increased from £21.7m in April to £32.9m at 31 December, largely due to the remaining consideration due from Tallwood (received in full in 2018) and repayment of the Group's borrowings.

There was a cash outflow generated by operations of £9.8m (April 2017: £11.0m in flow) largely attributable to the costs relating to the sale of the group to Canyon Bridge which are included here. The cash outflow from continuing operations was £11.7m with a contribution of £1.9m from discontinued operations.

Since the period end, the Group has secured a \$20m loan facility from Canyon Bridge as well as a £3m overdraft facility with HSBC.

#### **Going concern**

In preparing the financial statements on a going concern basis, the directors have considered whether the Group can continue in operational existence for the foreseeable future. The uncertainty over the level of future royalties that will be received from Apple may result in the Group requiring additional working capital beyond the existing facilities described above. In that scenario, the Group would require further financial support from Canyon Bridge – support that has been promised.

The Group's future cash flows and going concern considerations are discussed further in the Directors Report and note 1 to the accounts.

\* Adjusted profit / (loss) is used by management to measure the performance of the business year on year by excluding non-recurring items (items which typically do not occur every year), items relating to acquisitions, disposals and investments, non-cash based share incentive charges, and amortization of intangible assets acquired from acquisitions. The reconciliation from reported results to adjusted results is set out in note 2.

## Principal Risks and Uncertainties

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

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

The Board discussions on risk have focused on these items and the actions being taken to both manage and review them regularly. The Board also recognise that the first risk listed below has potentially crystallised, as announced by Imagination on 3<sup>rd</sup> April 2017 and discussed elsewhere in this report. However, the same risk still applies to all the business units and remains a concern for the Board.

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

	<p>standardisation bodies, to predict and avoid patent risks</p> <p>Build strong relationships with external counsel to enable us to act quickly and defend our position</p> <p>Work closely with customers to respond quickly to potential threats</p> <p>File more patents in key markets like China and India</p>
<b>Cyber Risk</b>	
<p>Cyber risk causes disruption to the business or loss of IP following a cyber-attack. This could cause interruption of internal or external facing systems, including; interruption to the business caused by a loss of data and reputational damage from a loss of personal or confidential data. The cost or effort to reconstitute data that has been stolen or corrupted and commercial loss from the theft of commercially sensitive data, including IP.</p>	<p>Deploying the latest generation of firewall protection</p> <p>Ongoing improvement in the rigour of authentication processes including wider use of single sign on</p> <p>Improved protection of confidential data on portable computers</p> <p>Improved process of system patching to close security loopholes</p> <p>Use of third party audits</p>
<b>Products Meeting Customer Requirements</b>	
<p>Unable to deliver new products on time or achieve performance that does not meet market requirements in terms of specification, quality or timeliness could result in loss of market share with a corresponding impact on financial performance.</p>	<p>Put in place resources to manage and monitor customer requirements</p> <p>Project management, including using project management systems</p> <p>Checks throughout the project to ensure the expected outcomes including specification and timing will be achieved</p> <p>Roadmap planning process including discussion with key customers</p> <p>Prioritisation of R&amp;D resources to key projects</p>
<b>Macro-Economic Developments</b>	
<p>Changes in global economic conditions can have a significant impact on our partners and customers and therefore may affect the financial performance of the business.</p>	<p>Broad customer, engineering and products base to balance risk</p> <p>Continuous review of market forecasts</p>
<b>Foreign Exchange</b>	
<p>Significant amounts of the Company's revenue is received in US dollars.</p>	<p>Foreign exchange hedging strategy implemented</p>
<b>Effective Management of People</b>	
<p>In a complex, geographically diverse and fast moving business it is critical that we retain and attract the skills and capabilities needed in sufficient numbers to deliver our objectives and maintain an entrepreneurial and dynamic culture. Internal control failure such as an employee</p>	<p>Ensure competitive remuneration package is designed to attract, retain and reward employees with ability and experience to execute group strategy</p> <p>Invest in training</p>

committing fraud or bribery due to lack of integrity or awareness.	<p>Succession planning</p> <p>A clear set of values and underpinning behaviours</p> <p>Increase frequency and quality of communications</p>
<b>Cash resources</b>	
Additional funding for continued product development	<p>Costs continue to be reduced to reduce cash outflows</p> <p>Businesses are being sold and proceeds will reduce debts</p> <p>Cash is managed on a daily basis with detailed monitoring</p> <p>Close relationship with Imagination's owners to ensure they understand our strategy and are willing to provide the necessary debt facility required to execute our plans</p>

## Corporate and Social Responsibility Report

### Corporate and social responsibility

Imagination remains focused on delivering business success in a responsible way, always seeking to maintain high environmental and ethical standards. Recognising that we have responsibilities to all stakeholders, including our employees, their families and the local communities within which we operate, the Group continues to develop positive business relationships with partners, customers, suppliers and others.

The Group remains geographically spread across many global locations, operating in local communities and being mindful of the surrounding environment. Our global workforces are highly skilled, highly valued and respected. All of the Group's employees, irrespective of location, are afforded their employment rights in line with local laws and have a platform to raise concerns or issues related to their employment without fear of redress. The Group supports the work of our employees to support local charities and communities.

All employees are required to act honestly, fairly and with integrity and we ensure that updates are provided regularly on their obligations.

The Group is committed to providing equal opportunity irrespective of age, gender, marital status, sexual orientation or physical or mental disability – this is reflected in the Group's policies and operational arrangements. The commitment to achieving equality is continually strengthened by work undertaken on reward structures, providing transparency into processes that relate to our workforce and reporting on our overall gender pay gap.

### Environmental impact and energy use

As a Group our environmental impact on the whole is low. With our main business being the development of intellectual property, our emissions come mainly from the use of electricity in our offices and air travel. With greater use of enhanced business technology such as video conferencing, and tighter management of travel, we continue to reduce non-essential travel and the emissions we produce.

The Group is headquartered in Kings Langley, occupying two buildings both of which have a BREEAM rating of 'Excellent' and the maintenance regime is such that this level of award will be maintained.

As part of our environmental responsibilities, we maintain native boundary structure and habitats within the canal area that is within the Kings Langley campus.

### Data Centre

We own and operate a dedicated data centre to meet the Group's considerable IT requirements. To manage our environmental footprint, the Group condensed activity to one of the two halls. The data hall is supported by a highly efficient electrical distribution system that utilises state of the art static UPS systems that have multiple modes of operation to maximise energy efficiency. A low energy cooling solution has also been adopted that provides both a water and air cooled solution.

### Recycling

Over the last year, we have taken steps to ensure that across all our geographical locations we encourage and support employees to recycle their day to day waste, providing recycling bins for cardboard and non-confidential materials and separate confidential bags in every office, all of which are recycled. There are also recycling bins in each kitchen area. Energy saving measures are also in place for recycling components, such as printed circuit boards, toner cartridges, surplus packaging and paper. All cardboard, wooden boxes, drink cans and plastic bottles are currently recycled.

### The Group's employees



The Group recognises that its reputation and success depends upon the efforts, integrity and commitment of its people. Employee engagement across the whole Group has been given priority in the last year, developing the communication channels to help employees develop their knowledge of the business, offer ideas and innovate for the future.

We have a well-established Employee Engagement Forum and staff events which have provided regular opportunities for the CEO and CFO to engage staff in the Group's performance, strategy, vision and operational developments. Supported by the appointment of an internal communication and engagement specialist, we continue to encourage open discussions and innovation across the teams.

#### **Graduate recruitment and internship programme**

We remain focused on bringing people into engineering: the Group runs a graduate recruitment and internship programme with universities and colleges throughout the UK and other key locations. We have developed strong relationships with a number of universities including specifically in the UK and seek to extend that to other overseas educational establishments where appropriate.

#### **Academic outreach and sponsorship**

We maintain active links with universities and are supporting developments in specific areas where relevant to our intellectual property in addition to providing scholarship awards to university students

The Group has also seen an increase in young people from the local community undertaking the structured annual work experience program where they learn more about the careers available in our sector.

#### **Diversity**

The Group is dependent on the continued contribution of its employees and, as a global business, values people from all cultures, nationalities, religion and ethnicities irrespective of characteristics such as age, gender, marital status, sexual orientation or physical or mental disability.

The Group is committed to building a diverse organisation to maximise the talent available to us. We ensure that we follow all legal requirements and best practice in employment across the jurisdictions, based on equal opportunities for all employees, through the full employee life cycle.

The Group actively encourages employees with disabilities to seek help and guidance, making it clear that they will be supported in their career. Job applicants and employees with disabilities are encouraged and given full consideration for employment, promotion and training (including, if needed, retraining for alternative work where employees have become disabled), based on their aptitudes and abilities.

## Approval

This Strategic report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

The Strategic report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The directors, in preparing this Strategic report, have complied with section 414c of the Companies Act 2006.

This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Imagination Technologies Group Limited and its subsidiaries undertakings when viewed as a whole.

This report was approved by the Board of directors on 27 September 2018 and signed on its behalf by:



**Raymond Bingham**  
Director

## Board of Directors

The following directors served during the financial period:

Andrew Heath – Resigned 2 November 2017

Guy Millward – Resigned 2 November 2017, appointed 4 November 2017, resigned 3 January 2018

Peter Hill (non-executive) - Resigned 2 November 2017

David Anderson (non-executive) - Resigned 2 November 2017

Kate Rock (non-executive) - Resigned 2 November 2017

Nigel Toon (non-executive) - Resigned 2 November 2017

Ray Bingham – Appointed 2 November 2017

John Kao – Appointed 2 November 2017

Peter Kuo – Appointed 2 November 2017

Jonathan Lewis – Appointed 3 January 2018; Resigned 18 July 2018

Dr Liyou Leo Li – Appointed 18 July 2018

## Directors' report

The Directors present their report and audited financial statements of the Group for the period ended 31 December 2017.

The Board has prepared a Strategic Report and the CEO's review (page 7), which provides an overview of the development and performance of the Company's business to 31 December 2017. Certain information required to be included in the Directors' report can be found in other sections of the Annual Report as described below. All information presented in these sections is incorporated by reference into this Directors' report and is deemed to form part of this report:

*Review of the performance and future development of the Group, Strategic Report, pages 3 to 18.*

*Principal risks and uncertainties, Strategic report, pages 13 to 15.*

*Employment matters, Strategic report, page 17.*

Significant events since the balance sheet date are disclosed in note 23 in the notes to the consolidated financial statements.

### **Research and development**

The continuing cost of research and development expenditure and advanced technology projects charged directly to the income statement was £36,571,000 (Apr 17: £49,786,000). An indication of likely future developments in the business of the Group and details of research and development activities are included in the Strategic report.

### **Political donations**

No political donations were made during the period. Imagination has an established policy of not making donations to any political party, representative or candidate in any part of the world.

### **Financial instruments**

Details of the Group's financial risk management objectives and policies are set out within note 20 to the financial statements along with details of the Group's exposure to market risk, credit and liquidity risk.

### **Share capital**

Details of the issued share capital, together with details of the movements in the Group's issued share capital during the period are shown in note 17, which is incorporated and deemed to be part of this report. The Group has a single class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Group. As at 31 December 2017, there were 301,593,600 ordinary shares in issue and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Group is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

### **Dividends**

The directors do not recommend the payment of a dividend (Apr 17: nil).

### **Directors' indemnities**

The Company maintains directors' and officers' liability insurance and all directors of the Company benefit from qualifying third party provisions which were in place during the financial period. Article 130 of the Group's Articles of Association (and Article 132 of the Articles of Association as amended on 31 October 2017 and Article 36 of the new Articles of Association as adopted on 3 November 2017) provides for the indemnification of directors of the Group against liability incurred by them in certain situations,

and is a 'qualifying indemnity provision' within the meaning of section 236 of the Companies Act 2006. The qualifying indemnity was in force during the financial period and up to the date of signing the annual report.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the 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 period. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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, relevant and reliable;
- 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 financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

### **Responsibility statement of the directors in respect of the annual financial report**

We confirm that to the best of our 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 strategic 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.

### **Basis of preparation**

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

On 3 April 2017, the Group announced that Apple Inc. ("Apple") had asserted that it will no longer use the Group's intellectual property in its new products in 15 months to 2 years' time. Apple revenues continue to constitute a significant proportion of the group's revenue from continuing activities for the period ended 31 December 2017 (62%). While the Directors continue to believe that it will be extremely challenging for Apple to design a GPU in a way that allows them not to pay royalties to Imagination, they have no further clarity on whether and when royalties from Apple will decline, casting uncertainty over the expected trading performance of the Group.

Since the acquisition of the Imagination Technologies Group by Canyon Bridge on 2 November 2017, Canyon Bridge has promised continued financial support to the Group. At the date of this report, Canyon Bridge has advanced the group \$10m out of a \$20m facility that was put in place in January 2018 and has promised more funding if required. Imagination has no reason to doubt the availability of those funds.

The Directors have recently reviewed the Group's strategy and future business and updated its Business Plan ("the Plan"). This included cash flow forecasts for a period in excess of 12 months. The Plan covers a variety of scenarios, namely quantifying the impact of the Apple uncertainty and the achievement of the current and future years' sales

budget, since the cost base is relatively predictable or fixed. The overall conclusion is that were Apple not to pay royalties to Imagination on the next generation of iPhones and iPads that are generally expected to be released in September 2018, which is largely outside the Group's control, this would likely result in the group requiring additional working capital beyond the group's current standalone facilities. While ongoing support has been provided by Canyon Bridge, and further financial support has been promised, these facilities are not contractually secured at the date of this report. As a consequence of the uncertainty surrounding Apple's payment of royalties on new products, and the funding that the group would require should royalties materially decline, there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on the Group's assessment of the Plan and promised support from Canyon Bridge, the Directors' believe that the Group will continue to have acceptable financial resources to meet obligations as they fall due and accordingly have formed a judgement that it is appropriate to prepare the financial statements on a going concern basis. Therefore, these financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate. (see also note 1).

#### **Disclosure of information to auditors**

Each director confirms that, at the date this Annual Report and Accounts was approved, so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

#### **Independent auditor**

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

For and on behalf of the Board



**Raymond Bingham**

**Director**

27 September 2018

Company number: 2920061

### **Opinion**

We have audited the financial statements of Imagination Technologies Group Limited ("the company") for the 8 month period ended 31 December 2017 which comprise the group Consolidated income statement, the group Consolidated statement of comprehensive income, the group consolidated statement of financial position and the parent balance sheet, the Group consolidated and parent statement of changes in equity and the group consolidated statement of cash flows and related notes, including the accounting policies in note 1.

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 31 December 2017 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Material uncertainty related to going concern**

In forming our opinion on the financial statements we considered the adequacy of the disclosure in note 1 to the financial statements concerning the company's ability to continue as a going concern. In particular we draw attention to the uncertainty of future cash flows from Apple if they were to use Imagination IP in the iPhone to be released in 2018 and the availability of additional facilities from Canyon Bridge as may be needed if these revenues do not materialize. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

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 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report

We have nothing to report in these respects.



As explained more fully in their statement set out on page 22, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

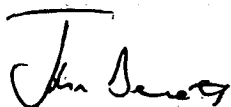
#### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### **The purpose of our audit work and to whom we owe our responsibilities**

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



**John Bennett (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

27 September 2018

# Consolidated income statement

	Notes	P/E 8 months to 31 Dec 2017	Year to 30 April 2017
		£'000	(restated) £'000
Revenue	1, 2	71,184	109,745
Operating expenses	2	(112,180)	(104,659)
Operating (loss) / profit from continuing operations	2,3	(40,996)	5,086
Financial income		6	65
Financial expenses		(321)	(5,491)
Net financing expense		(315)	(5,426)
Loss before tax	2	(41,311)	(340)
Taxation charge	5	(1,244)	(18,665)
Loss from continuing operations	2	(42,555)	(19,005)
Loss from discontinued operations (net of tax)		(8,781)	(8,903)
Loss for the financial period attributable to equity holders of the parent		(51,336)	(27,908)

The notes to the accounts form an integral part of these financial statements.

# Consolidated statement of comprehensive income

	Notes	P/E 8 months to 31 Dec 2017 £'000	Year to 30 April 2017 £'000
Loss for the financial period attributable to equity holders of the parent		(51,336)	(27,908)
<b>Other comprehensive income:</b>			
<b>Items that are or maybe reclassified subsequently to profit or loss:</b>			
Exchange differences on translation of the balance sheets of foreign operations		1,668	(4,898)
Exchange differences on translation of part of the net investment in foreign operations		(1,291)	4,392
Historical exchange differences relating to foreign operations now disposed recognised in income statement		(471)	-
Change in fair value of assets classified as available for sale	8	(205)	580
Reclassification to profit or loss during the period – impairment of asset available for sale	8	(701)	-
<b>Total other comprehensive income / (expense) for the financial period, net of income tax</b>		<b>(1,000)</b>	<b>74</b>
<b>Total comprehensive expense for the financial period attributable to equity holders of the parent</b>		<b>(52,336)</b>	<b>(27,834)</b>

The notes to the accounts form an integral part of these financial statements.

# Consolidated statement of financial position

		At 31 December 2017 £'000	At 30 April 2017 £'000
	Notes		
<b>Non-current assets</b>			
Other intangible assets	6	8,969	38,411
Goodwill	6	23,811	48,716
Property, plant and equipment	7	22,994	63,982
Investments	8	3,670	5,097
Deferred tax	5	155	98
Corporation tax	5	1,428	1,280
Other debtors		17	199
		<b>61,044</b>	<b>157,783</b>
<b>Current assets</b>			
Inventories	9	-	76
Trade and other receivables	10	38,916	31,471
Accrued income	10	27,072	28,423
Corporation tax	5	857	1,014
Cash and cash equivalents	11	3,023	17,171
		<b>69,868</b>	<b>78,155</b>
<b>Total assets</b>		<b>130,912</b>	<b>235,938</b>
<b>Current liabilities</b>			
Trade and other payables	12	(26,687)	(39,175)
Provisions	13	(9,812)	(7,118)
Liabilities held for resale	16	-	(244)
Interest bearing loans and borrowings	14	-	(3,861)
Corporation tax payable	5	(487)	(6,058)
		<b>(36,986)</b>	<b>(56,456)</b>
<b>Non-current liabilities</b>			
Other payables	15	(2,399)	(5,572)
Provisions	13	(4,042)	(400)
Interest bearing loans and borrowings	14	-	(41,742)
Deferred tax liability	5	(621)	(10,840)
Corporation tax	5	(1,489)	(1,547)
		<b>(8,551)</b>	<b>(60,101)</b>
<b>Total liabilities</b>		<b>(45,537)</b>	<b>(116,557)</b>
<b>Net assets</b>		<b>85,375</b>	<b>119,381</b>
<b>Equity</b>			
Called up share capital	17	30,159	28,394
Share premium account	17	105,459	105,027
Other capital reserve	17	1,423	1,423
Merger reserve	17	2,402	2,402
Revaluation reserve	17	182	1,088
Translation reserve	17	476	570
Retained earnings	17	(54,726)	(19,523)
<b>Total equity attributable to equity holders of the parent</b>		<b>85,375</b>	<b>119,381</b>

The notes to the accounts form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 27 September 2018 and were signed on its behalf by:



**Raymond Bingham**

Director

Registered Number 2920061

# Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Other capital reserve £'000	Merger reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2016	27,663	103,277	1,423	2,402	508	1,076	(3,508)	132,841
Loss for the year	-	-	-	-	-	-	(27,908)	(27,908)
Other comprehensive income for the year:								
Exchange differences on translation of the balance sheets of foreign operations	-	-	-	-	-	(4,898)	-	(4,898)
Exchange differences on translation of part of the net investment in foreign operations	-	-	-	-	-	4,392	-	4,392
Change in fair value of assets classified as available for sale	-	-	-	-	580	-	-	580
Total other comprehensive income for the year	-	-	-	-	580	(506)	-	74
Share based remuneration	-	-	-	-	-	-	12,682	12,682
Tax charge in respect of share-based incentives	-	-	-	-	-	-	(150)	(150)
Issue of shares for SIP	79	-	-	-	-	-	(79)	-
Issue of shares at nil cost	560	-	-	-	-	-	(560)	-
Issue of new shares	92	1,750	-	-	-	-	-	1,842
At 30 April 2017	28,394	105,027	1,423	2,402	1,088	570	(19,523)	119,381
At 30 April 2017	28,394	105,027	1,423	2,402	1,088	570	(19,523)	119,381
Loss for the period	-	-	-	-	-	-	(51,336)	(51,336)
Other comprehensive income for the period:								
Exchange differences on translation of the balance sheets of foreign operations	-	-	-	-	-	1,668	-	1,668
Exchange differences on translation of part of the net investment in foreign operations	-	-	-	-	-	(1,291)	-	(1,291)
Historical exchange differences relating to foreign operations now disposed recognised in income statement	-	-	-	-	-	(471)	-	(471)
Change in fair value of assets classified as available for sale	-	-	-	-	(906)	-	-	(906)
Total other comprehensive income for the period	-	-	-	-	(906)	(94)	-	(1,000)
Share based remuneration	-	-	-	-	-	-	17,870	17,870
Tax charge in respect of share-based incentives	-	-	-	-	-	-	-	-
Issue of shares for SIP	1,737	-	-	-	-	-	(1,737)	-
Issue of shares at nil cost	28	432	-	-	-	-	-	460
Issue of new shares	-	-	-	-	-	-	-	-
At 31 December 2017	30,159	105,459	1,423	2,402	182	476	(54,726)	85,375

The notes to the accounts form an integral part of these financial statements.

# Consolidated statement of cash flows

	Notes	P/E 8 months to 31 Dec 2017 £'000	Year to 30 April 2017 £'000
<b>Cash flows from operating activities</b>			
Loss after tax		(51,336)	(27,908)
Tax charge		5,938	18,450
<b>Loss before tax</b>		<b>(45,398)</b>	<b>(9,458)</b>
Adjustments for:			
Depreciation and amortization and impairment	3	7,933	15,703
Loss on disposal of fixed assets		67	29
Net financing charge		63	5,239
Share-based remuneration	4	17,870	12,682
Loss on of investments	8	300	2
Gain on disposal of business units		(724)	(424)
Loss on sale of property	2	5,405	-
Contingent acquisition consideration release		-	(1,280)
Acquisition costs		-	590
Exchange difference		559	56
<b>Operating cash flows before movements in balance sheet items</b>		<b>(13,925)</b>	<b>23,139</b>
Change in balance sheet items:			
Increase in inventories		(87)	(812)
Decrease / (Increase) in receivables		2,181	(7,209)
Decrease in payables		(3,205)	(7,473)
Increase in provisions		5,192	3,312
<b>Cash (utilised) / generated by operations</b>		<b>(9,844)</b>	<b>10,957</b>
Interest paid		(681)	(1,751)
Taxes paid		(1,830)	(2,405)
<b>Net cash flows from operating activities</b>		<b>(12,355)</b>	<b>6,801</b>
<b>Cash flows from investing activities</b>			
Disposal of investments in the period	8	220	108
Disposal of business units		14,835	2,550
Disposal of Investment properties		-	4,500
Disposal of properties		32,150	-
Acquisition of intangible assets		(2,097)	(2,864)
Acquisition of property, plant and equipment		(860)	(1,949)
Interest received		6	65
Payment of deferred acquisition consideration		-	(763)
<b>Net cash from investing activities</b>		<b>44,254</b>	<b>1,647</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	17	-	426
Draw down of facilities	14	-	23,750
Repayment of borrowings		(44,954)	(19,715)
Finance lease payments		(1,028)	(1,862)
<b>Net cash from financing activities</b>		<b>(45,982)</b>	<b>2,599</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(14,083)</b>	<b>11,047</b>
Effect of exchange rate fluctuation		(65)	304
<b>Cash and cash equivalents at the start of the period</b>		<b>17,171</b>	<b>5,820</b>
<b>Cash and cash equivalents at the end of the period</b>	11	<b>3,023</b>	<b>17,171</b>

During the period, discontinued operations contributed £1.9m of the group's net operating cash flows.

The disposal of MIPS generated a £14.8m cash receipt, resulting in a net cash inflow from investing activities of £14.8m relating to discontinued operations. There were £nil cash flows in respect of financing activities relating to discontinued operations. The cash flows from operations include £12.5m of outflows associated with the buyout of the Group.

# Notes to the consolidated financial statements

## 1 Accounting policies

### General

Imagination Technologies Group Limited 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 Group has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework 'FRS 101'; these are presented on pages 71 to 76.

#### Basis of preparation

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

The following additional accounting standards, amendments, and interpretations have been adopted in the period:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
- Disclosure Initiative – Amendments to IAS 7 Equity Method in Separate Financial Statements – Amendments to IAS 27
- Disclosure Initiative – Amendments to IAS 1
- Annual Improvements to IFRSs – 2012-2014 Cycle

This cycle of improvements contains amendments to the following four standards.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in method for disposal
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits – Discount rate in a regional market sharing the same currency – e.g. the Eurozone
- IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'

The adoption of these standards, amendments and interpretations have not had a material effect on the 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 for investments which have been stated at fair value in accordance with IAS 39.

#### Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

On 3 April 2017, the Group announced that Apple Inc. ("Apple") had asserted that it will no longer use the Group's intellectual property in its new products in 15 months to 2 years' time. Apple revenues continue to constitute a significant proportion of the group's revenue from continuing activities for the period ended 31 December 2017 (62%). While the Directors continue to believe that it will be extremely challenging for Apple to design a GPU in a way that allows them not to pay royalties to Imagination, they have no further clarity on whether and when royalties from Apple will decline, casting uncertainty over the expected trading performance of the Group.

Since the acquisition of the Imagination Technologies Group by Canyon Bridge on 2 November 2017, Canyon Bridge has promised continued financial support to the Group. At the date of this report, Canyon Bridge has advanced the group \$10m out of a \$20m facility that was put in place in January 2018 and has promised more funding if required. Imagination has no reason to doubt the availability of those funds.

The Directors have recently reviewed the Group's strategy and future business and updated its Business Plan ("the Plan"). This included cash flow forecasts for a period in excess of 12 months. The Plan covers a variety of scenarios, namely quantifying the impact of the Apple uncertainty and the achievement of the current and future years' sales budget, since the cost base is relatively predictable or fixed. The overall conclusion is that were Apple not to pay royalties to Imagination on the next generation of iPhones and iPads that are generally expected to be released in September 2018, which is largely outside the Group's control, this would likely result in the group requiring additional working capital beyond the group's current standalone facilities. While ongoing support has been provided by Canyon Bridge, and further financial support has been promised, these facilities are not contractually secured at the date of this report. As a consequence of the uncertainty surrounding Apple's payment of royalties on new products, and the funding that the group would require should royalties materially decline, there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.



Based on the Group's assessment of the Plan and promised support from Canyon Bridge, the Directors' believe that the Group will continue to have acceptable financial resources to meet obligations as they fall due and accordingly have formed a judgement that it is appropriate to prepare the financial statements on a going concern basis. Therefore, these financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

#### **Basis of consolidation – subsidiaries**

Subsidiaries are those entities controlled by the Group. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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.

#### **Business combinations**

The Group has applied *IFRS 3 Business Combinations (revised 2008)* in accounting for business combinations.

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable, as well as other factors including board representation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control passes.

The Group measures goodwill as the fair value of the consideration paid or payable less the net fair value of the identifiable assets, liabilities assumed and contingent liabilities acquired, all measured as of the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Costs related to the acquisition, other than those associated with the issue of equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

#### **Revenue**

Revenue comprises of; the value of consideration received for sales of licenses to the Group's technology, royalties arising from the resulting sale of licensees' products embedded with the Group's technology, development income, support, maintenance, training, and the sale of goods.

The Group follows the principles of *IAS 18 Revenue recognition*. Revenue associated with the sales of goods is recognised when all of the following conditions are satisfied:

- The Group has transferred the significant risks and rewards of ownership to the buyer;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow into the Group; and
- The costs incurred and or to be incurred can be measured reliably.

Revenue associated with the provision of services is recognised when all of the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow into the Group;
- The stage of completion of the transaction as at the end of the reporting period can be measured reliably; and
- The costs incurred, or to be incurred for the transaction can be measured reliably.

Therefore, revenue from standard licenses is recognised on delivery to the customer, which is when it is considered the above conditions are met. Revenue on licence agreements for Intellectual property which are either not finished or which need to be modified to meet specific customer requirements is recognised on a percentage-of-completion basis over the period from starting development of the Intellectual property to delivery. The percentage-of-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 Intellectual property is recognised under a subscription accounting basis, on a straight-line basis over the term of the arrangement.

Revenue on development work is recognised on a percentage-of-completion basis over the period from the start of the development to delivery. Development work is normally invoiced as milestones are achieved.

Where invoicing milestones on licence or development arrangements are such that the proportion of work performed is greater than the proportion of the total contract value which has been invoiced, the Group evaluates whether it has obtained, through its performance to date, the right to the un-invoiced consideration and therefore whether revenue should be recognised. In particular it considers whether there is sufficient certainty that the invoice 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 recognised until there is sufficient evidence that it is probable that the economic benefits associated with the transaction will flow into the Group.

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

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

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

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

Revenues from the sale of goods are recognised upon delivery.

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

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

As disclosed above, in accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*, the Group makes significant estimates in applying its revenue recognition policies. Estimates are made in particular, in regards to the percentage-of-completion accounting method, which requires that the extent of progress towards completion of contracts may be anticipated with reasonable certainty. The use of this method is based on the assumption that, at the outset of licence agreements, there is an insignificant risk that customer acceptance will not be obtained. The Group also makes assessments, based on prior experience, of the extent to which future milestone receipts represent a probable future economic benefit to the Group. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the revenue recognition policies affect the amounts reported in the financial statements. If different assumptions were used, it is possible that different amounts would be reported in the financial statements.

The above revenue recognition policy is applied consistently irrespective of whether or not the consideration received is in the form of cash or non-cash (for example equity). Where non-cash consideration is received for the group's Intellectual property products or services, revenue is only recognised where there is objective evidence of fair value established using the methodologies described in the trade investments note below.

#### **Research and development costs**

Costs of basic and applied research, and all development costs, are written off in the period in which they are incurred by the Group.

Where an Intellectual property product is technically feasible, production and sale are intended, an end market for the Intellectual property product exists, costs can be measured reliably, and sufficient resources are available to complete the project, then research and development costs are capitalised and amortised on a straight-line basis over the estimated useful life of the Intellectual property product. The Group believes these requirements are only satisfied in their entirety once the Intellectual property product is near to, or essentially complete, by which point the level of development costs remaining to be incurred are not significant. Therefore, no costs have been capitalised to date.

The cost of obtaining patents for the group's technology in individual jurisdictions is capitalised. The costs predominantly relate to legal expense associated with completing the patent application process.

#### **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**

Prior to its acquisition by Canyon Bridge, the Group was a PLC who's shares were traded on the London Stock Exchange. The share option programmes and the share incentive arrangements in place at that time allowed employees to acquire shares of the Company. The fair value of share incentives was recognised as an expense with a corresponding increase in equity. The fair value was measured at grant date and spread over the period during which the employee became unconditionally entitled to the share incentives. The fair value of the share incentives granted was measured using the Black-Scholes or Monte Carlo Simulation models. The amount recognised as an expense was 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.

Transactions of the Company-sponsored Employee Benefit Trust are also included in the Group's consolidated financial statements. In particular, where the Trust has purchased shares in the Company, the relevant amount has been debited directly to retained earnings.

At the time of the acquisition of the Group by Canyon Bridge, all outstanding share options and share incentive programmes crystallised. Currently the Group has no active share incentive arrangements in place, and no share based payments are being expensed.

#### **Taxation**

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

Current tax is the expected tax payable on the taxable income for the period, 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. Temporary differences on goodwill are not provided for as are not deductible for tax purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer possible that the related tax benefit will be realised.

#### **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 period. The assets and liabilities are translated at rates ruling at the balance sheet date. Exchange differences arising from retranslation have been recognised directly in the statement of other comprehensive income. The presentational currency is GBP.

#### **Intangible assets**

Intangible assets are stated at cost of acquisition and amortised on a straight line basis over their estimated useful economic lives. The residual values of intangible assets are assumed to be nil. Useful economic lives are reviewed on an annual basis. When the Group makes an acquisition, management review the business and assets acquired to determine whether any intangible assets should be recognised separately from goodwill. Fair value of the intangible assets is assessed assuming a hypothetical market. The Group utilises the income based approach when reliable future cash flows are available. Alternatively, the cost approach or market approach are utilised.

The amortization rates applied are:

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

#### **Trade investments**

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

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

The fair value of unquoted investments is made by reference to recent funding rounds.

The Group is exposed to equity securities price risk on available for sale financial assets. As there can be no guarantee that there will be a future market for securities or that the value of such investments will rise, the directors evaluate each investment opportunity on its merits before committing the Group's funds. The directors review holdings in such companies on a regular basis to determine whether continued investment is in the best interests of the Group. Funds for such ventures are limited in order that the financial effect of any potential decline of the value of investments will not be substantial in the context of the Group's financial results.

Further details of these investments and the valuation basis are detailed in note 8 and note 20.

#### **Goodwill**

Purchased goodwill (representing the excess of the fair value of the consideration paid or payable over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired) arising on consolidation in respect of acquisitions is capitalised. Goodwill is allocated to cash generating units expected to benefit from the acquisition and is not amortised but tested annually for impairment. Any impairment is recognised immediately in the income statement and may not be subsequently reversed. Impairment testing is based on assets grouped at the lowest possible level at which goodwill is monitored for internal management purposes.

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 any accumulated impairment losses.

Business combinations that took place prior to 1 April 2004 have not been re-stated and goodwill represents the amount recognised 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	50 years
Leasehold improvements	Equally over the period of the lease
Plant and equipment	3 to 10 years
Motor vehicles	4 years

## **Impairment**

### **a) Non-financial assets**

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

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

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying value of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised 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 amortization, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

### **b) 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 amortised 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 recognised in the income statement. Any cumulative gain or loss in respect of an available-for-sale financial asset recognised 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 recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

### **Derivative financial instruments**

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

### **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 Consolidated 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 amortised cost using the effective interest method, less any impairment losses.

### **Provisions**

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation arising from past events, it is probable cash will be paid to settle it and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount and timing of actual cash flows which are dependent on future events.

### **Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

#### Revenue recognition

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

#### Investments

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

#### Taxation

A deferred tax asset (note 5) is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. The Group has made estimates on the likelihood that future taxable profit will utilise 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 6.

### Adopted IFRS not yet applied

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The following accounting standards, amendments and interpretations had been issued but they are not yet effective for the Group and have not been early adopted;

	Effective for periods commencing after
IFRIC 22 Foreign Currency Transactions and Advance Consideration Disclosure Initiative – Amendments to IAS 7	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019

With the exception of IFRS15 and IFRS16 it is considered that the above standards and amendments will not have a significant effect on the consolidated or Company results or net assets.

At the date of this report, the Company is currently assessing the likely impact of IFRS 15 and IFRS 16 and, as yet, has not fully quantified their impact. IFRS15 is effective for annual periods beginning on or after 1st January 2018, with early adoption permitted. It establishes a comprehensive framework for determining whether, how much and when revenue should be recognised and it replaces existing revenue recognition guidance, including IAS 18 Revenue. Under IFRS15, revenue earned from contracts with customers will be recognised based on a five-step model which requires, for each contract, the transaction price to be apportioned to the separate performance obligations arising under the contract on a relative standalone selling price basis, and recognised as revenue at the point at which control of goods or services is transferred to the customer. The transaction price will be the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The incremental costs of obtaining a contract and contract fulfilment costs will be recognised as an expense consistent with the transfer of the related goods or services to the customer. Depending on the particular contractual arrangements in place, application of the new standard may change the amount of revenue recognised on a contract and/or its timing compared with current accounting policies.

IFRS16 was published in January 2016 and will become effective in January 2019. IFRS16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard.

## 2 Operating results

Information regarding the continuing operations of the Group is provided below.

Period ended 31 December 2017	December 17 £'000	April 17 (restated) £'000
<b>Revenue</b>		
Licensing	13,354	26,639
Royalties	57,595	82,956
Other	235	150
<b>Total Revenue</b>	<b>71,184</b>	<b>109,745</b>
<b>Operating expenses</b>		
Cost of sales	(5,609)	(3,533)
Research & Development	(36,571)	(49,786)
SG&A <u>included</u> in adjusted profit	(21,355)	(36,675)
SG&A <u>excluded</u> from adjusted profit - below	(48,645)	(14,512)
<b>Total operating expenses</b>	<b>(112,180)</b>	<b>(104,506)</b>
<b>Operating (loss) / profit</b>	<b>(40,996)</b>	<b>5,239</b>
Net financing expense	(315)	(5,426)
<b>Loss before tax</b>	<b>(41,311)</b>	<b>(187)</b>
Taxation charge	(1,244)	(18,665)
<b>Loss for the period</b>	<b>(42,555)</b>	<b>(18,852)</b>

Adjusted profit is used by management to measure the performance of the business by excluding non-recurring items (items which typically do not occur every year), items relating to acquisitions, disposals and investments, non-cash based share incentive charges, and amortization of intangible assets acquired from acquisitions. Management believes that adjusted profit provides the clearest measure of the performance of the continuing business and the most meaningful comparison of performance year on year.

<u>Adjusted operating profit</u>	<b>December 17</b>	<b>April 17</b>
	<b>£'000</b>	<b>(restated) £'000</b>
Reported operating profit / (loss) - (from above)	<b>(40,996)</b>	5,239
Share based payments	<b>15,291</b>	8,876
Amortisation of intangibles from acquisitions	<b>783</b>	1,174
Acquisition related costs	<b>376</b>	590
Release of deferred & contingent consideration	-	(1,280)
Loss / (gain) on investments	<b>301</b>	(24)
Costs associated with the sale of the group	<b>14,910</b>	56
Loss on disposal of investment property	-	2,027
Loss on disposal of land & buildings	<b>5,405</b>	-
Corporate restructuring costs	<b>217</b>	1,066
Provision for onerous contracts	<b>10,620</b>	2,069
Provision for onerous leases	<b>532</b>	(20)
Impairment of tangible fixed assets	-	-
Dilapidations	<b>210</b>	(22)
<b>Adjusted operating profit</b>	<b>7,649</b>	<b>19,751</b>
Net financing expense	<b>(315)</b>	<b>(5,426)</b>
<b>Adjusted profit before tax</b>	<b>7,334</b>	<b>14,325</b>

Acquisition related costs in the period ending 31 December 17 relate largely to deferred acquisition consideration payable relating to the historic acquisition of Kisel.

The loss on investments relates mainly to the impairment of the Group's investment in Atomos.

The costs associated with the sale of the group in the period ending 31 December 17, largely relates to fees incurred during the sale of the Imagination Group to Canyon Bridge.

The loss on disposal of land & buildings relates to the sale and leaseback of Imagination's Kings Langley headquarters

The provision for onerous contracts charge to the income statement is £10,620,000 (Apr 2017: £2,007,000) relating to four IMG Works revenue contracts (see also note 13).

The provision for onerous leases and the dilapidations provision relate mainly to the Bristol and Leeds properties.

Revenue is reported by geographical area of sales as follows:

	December 2017 £'000	April 2017 (restated) £'000
USA	53,746	77,855
Asia	12,275	17,620
Rest of Europe	1,795	8,370
United Kingdom	1,758	2,759
Rest of the world	1,019	2,357
Rest of North America	591	784
	<hr/>	<hr/>
	71,184	109,745
	<hr/>	<hr/>
Discontinuing	18,560	42,159
	<hr/>	<hr/>
	89,744	151,904
	<hr/>	<hr/>

The basis for attributing external customers to individual countries is the customer's country of domicile.

Revenue from individual customers that represent more than 10% of the Group's total revenue for the period have values of approximately £44,304,000 (April 2017: £65,350,000). The customer's country of domicile is USA, and these revenues are included in the PowerVR division business unit.

All revenue is from external customers, and originates materially from the United Kingdom.

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



### 3 Expenses

	Continuing		Discontinued		Total	
	Dec 2017	Apr 2017 (restated)	Dec 2017	Apr 2017 (restated)	Dec 2017	Apr 2017
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Operating loss is stated after charging / (crediting):</b>						
Staff costs - salaries	32,251	50,325	11,420	25,159	43,671	75,484
Staff costs - social security	5,376	4,675	341	1,623	5,717	6,298
Staff costs - pensions	1,576	2,244	455	1,215	2,031	3,459
Staff costs - Share incentives	15,291	8,876	2,579	3,806	17,870	12,682
Staff costs - indirect overheads	<u>1,074</u>	<u>2,646</u>	<u>756</u>	<u>1,641</u>	<u>1,830</u>	<u>4,287</u>
Total staff costs	55,568	68,766	15,551	33,444	71,119	102,210
Subcontractors	968	1,036	1,425	3,268	2,393	4,304
Depreciation, amortization and impairment of tangible and intangible assets	4,998	7,649	2,935	5,992	7,933	13,641
Impairment of goodwill	-	-	-	-	-	-
Impairment of investment property	-	-	-	-	-	-
Loss on disposal of fixed assets	5,421	29	-	-	4,641	29
Foreign exchange loss / (gain)	(558)	(1,414)	-	-	(558)	(1,414)
Operating lease rentals:						
Property	1,298	1,515	470	925	1,768	2,440
Other	4,826	7,806	113	222	4,939	8,028
Other operating expenses	<u>39,659</u>	<u>19,119</u>	<u>2,152</u>	<u>7,578</u>	<u>40,401</u>	<u>26,697</u>
Total operating expenses	112,180	104,506	22,646	51,429	132,636	155,935
<b>Auditor's remuneration</b>						
Audit of these financial statements	18	25				
Amounts receivable by the company's auditor and its associates in respect of:						
Audit of financial statements of subsidiaries of the company	162	181				
Audit-related assurance services	-	12				
Taxation compliance services	-	-				
Other tax advisory services	-	-				
Corporate finance services	-	580				
	180	798				

Not included in the auditor's remuneration above are expenses incurred by the auditor for which they are reimbursed by the company of £nil (Apr 2017: £14,000).

## 4 Employees

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

	Continuing		Discontinued		Total	
	Dec 2017	Apr 2017 (restated)	Dec 2017	Apr 2017 (restated)	Dec 2017	Apr 2017
Research and development	773	807	136	387	909	1,194
Production	-	-	-	8	-	8
Administration	114	136	-	1	114	137
Sales and marketing	42	52	3	12	45	64
	929	995	139	408	1,068	1,403

The aggregate payroll costs of these persons were:

	Continuing		Discontinued		Total	
	Dec 2017 £'000	Apr 2017 £'000	Dec 2017 £'000	Apr 2017 £'000	Dec 2017 £'000	Apr 2017 £'000
Wages and salaries	32,251	50,325	11,420	25,169	43,671	75,484
Social security costs	5,376	4,675	341	1,623	5,717	6,298
Other pension costs	1,576	2,244	455	1,215	2,031	3,459
Share-based payments	15,291	8,876	2,579	3,806	17,870	12,682
	54,494	66,120	14,795	31,803	69,289	97,923

## 5 Taxation

	Dec 2017 £'000	** Apr 2017 £'000
<b>Analysis of tax charge in the period</b>		
<b>Current tax charge</b>		
UK corporation tax	–	–
Foreign tax	6,359	3,296
Reversal of tax assets	737	4,532
<b>Total current tax charge</b>	<b>7,096</b>	<b>7,828</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(1,158)	(609)
Effect of changes in tax rates on deferred tax balances	–	576
Adjustments in respect of prior periods	–	(119)
Reversal of tax assets	–	10,774
<b>Total deferred tax (credit) / charge</b>	<b>(1,158)</b>	<b>10,622</b>
<b>Total income tax charge / (credit)*</b>	<b>5,938</b>	<b>18,450</b>

\* £4,694,000 (April 2017: tax credit of £215,000) of the above tax charge has been attributed to discontinued operations for the purpose of calculating the post tax loss attributable to discontinued operations in the period (see income statement and note 16). Therefore £1,244,000 is attributable to continuing operations (April 2017: £18,665,000)

\*\*In the current year amounts related to tax asset balances that have been written down that are not related to carried forward tax losses or movements in deferred tax balances have been presented as current tax amounts. The prior year comparative has been updated to reflect this change.

The total tax charge for the period of £5,938,000 (Apr 2017: £18,450,000 tax credit) is higher (Apr 2017: higher) than the standard rate of corporation tax in the UK of 19.00% (2016: 19.92%). The difference is explained below:

	Dec 2017 £'000	Apr 2017 £'000
Loss before taxation	(45,398)	(9,458)
Notional tax (credit) at UK standard rate of 19.00% (Apr 2017: 19.92%)	(8,626)	(1,884)
Tax effect of fixed asset timing differences	722	–
Tax effect of expenses that are not deductible for tax purposes	12,850	1,902
Deferred tax asset not recognised	(320)	14
Reversal of deferred and corporate tax assets	737	16,955
Adjustment of deferred tax opening and closing balances to 19%	(404)	–
Adjustments in respect of prior periods	–	(448)
Withholding tax	1,206	2,337
Increase in uncertain tax positions	–	468
Different tax rates on overseas earnings	(227)	(662)
Effect of R&D tax relief	–	(232)
<b>Total income tax charge / (credit)</b>	<b>5,938</b>	<b>18,450</b>
<b>Tax on items charged / (credited) to equity:</b>		
Deferred tax	–	150
Current tax	–	–

### Current tax

The group receives significant government tax incentives including, in the UK, Research and Development Expenditure credits ("RDEC"), which is shown as an 'above the line' relief. This has the impact of a 'credit' being recorded in operating expenditure of £3,884,000 (April

2017: £7,397,000) – of which £5,000 (April 2017: £1,164,000) reflected a true up of the April 2017 P&L charge once the final RDEC claim for that year had been submitted. The P&L credit is then taxed at the prevailing UK corporation tax rate. If the UK group makes a taxable loss for the year, losses generated by the RDEC claim can be reclaimed in cash from HMRC.

### Tax assets

At 31 December 2017, there are current tax assets receivable in more than one year of £1,428,000 (April 2017: £1,280,000) and receivable in less than one year of £857,000 (April 2017: £1,014,000). The assets relate to prepayments of tax by overseas subsidiaries.

### Tax liabilities

At 31 December 2017, there is a current tax liability due in less than one year of £487,000 relating to the Group's overseas subsidiaries (April 2017: £6,058,000). The April 2017 comparative largely related to an IRS audit in the US. All liabilities relating to this audit were assumed by Tallwood Inc when they acquired the US subsidiaries from Imagination.

At 30 April 2017 there is a current tax liability due in more than one year of £1,489,000 (April 2017: £1,547,000). The balance in both years largely relates to a provision in India, and which contras against the asset receivable in more than one year.

### Deferred tax

The movement on the deferred tax account is as follows:

	As at 30 April 2017 £'000	Recognised in income statement £'000	Disposed of during period £'000	Recognised in equity & reserves £'000	As at 31 Dec 2017 £'000
Tax losses	3,962	749	–	–	4,711
Share based payments	1,257	(1,257)	–	–	–
Other timing differences	98	60	–	(3)	155
Capital allowances	(5,219)	545	–	–	(4,674)
Gain on foreign exchange contract	–	(37)	–	–	(37)
Acquisition of intangible assets	(10,840)	1,098	9,121	–	(621)
	(10,742)	1,158	9,121	(3)	(466)

Deferred taxation has been presented on the balance sheet as follows:

	Apr 2017 £'000	Dec 2017 £'000
Deferred tax asset	98	155
Deferred tax liability	(10,840)	(621)
At end of the period	(10,742)	(466)

Given the uncertainty of future profit generation, and taking into account the factors discussed in note 1, management have decided not to recognise any UK deferred tax assets at 31 December 2017. The remaining £155,000 asset relates to overseas territories where profits are certain due to transfer pricing arrangements that are in place (April 2017: £98,000).

The value of the unrecognised UK deferred tax asset at 31 December 2017 was £4,436,000.

The deferred tax liability reduces during the period to £621,000 (April 2017: £10,840,000). This movement was a result of the amortization of intangible assets relating to previous acquisitions, and the disposal of the MIPS business unit during the period (see note 16).

None of the recognised tax assets or liabilities expire.

Deferred tax assets and liabilities are only offset where they relate to income taxes levied by the same taxation authority and there is a legally enforceable right to offset.

### Factors affecting future tax charge

The Finance Act 2016 reduced the rate of Corporation Tax from 1 April 2017 to 19% and by a further 2% to 17% from 1 April 2020. The deferred tax asset on the tax losses and the deferred tax liability on the fixed asset timing differences have been recognised at the main rate of UK Corporation Tax of 17%.

In addition, the Finance Act 2012 introduced the UK patent box regime which provides for an effective tax rate of 10% on certain UK profits from 1 April 2013 (phased in over 5 years). The Group has not made an election in to the UK Patent Box regime as at 31 December 2017.

No UK centric deferred tax assets or liabilities are recognised, however if they were they would be recognised at the main rate of UK Corporation Tax of 17%.

## 6 Goodwill and other intangible assets

	Goodwill £'000	Intangible assets from acquisitions* £'000	Software, patents and trademarks £'000	Total £'000
<b>Cost</b>				
At 1 May 2016	63,351	71,406	19,896	154,653
Reclassification	—	—	133	133
Additions	—	—	2,685	2,685
Disposals	—	—	(73)	(73)
At 30 April 2017	63,351	71,406	22,641	157,398
At 1 May 2017	63,351	71,406	22,641	157,398
Additions	—	—	2,287	2,287
Disposals	(25,925)	(51,112)	(12,372)	(89,409)
At 31 December 2017	37,426	20,294	12,556	70,276
<b>Amortization</b>				
At 1 May 2016	14,578	34,203	14,420	63,201
Reclassification	—	—	109	109
Charge for the year	—	6,036	909	6,945
Disposals	—	—	(41)	(41)
Impairment	57	—	—	57
At 30 April 2017	14,635	40,239	15,397	70,271
At 1 May 2017	14,635	40,239	15,397	70,271
Charge for the period	—	3,214	861	4,075
Disposals	(1,020)	(25,051)	(10,779)	(36,850)
At 31 December 2017	13,615	18,402	5,479	37,496
Net book value at 30 April 2017	48,716	31,167	7,244	87,127
Net book value at 31 December 2017	23,811	1,892	7,077	32,780

\*Intangible assets from acquisitions are those assets recognized when fair value accounting for the previous acquisitions of MIPS Technologies Inc (since renamed Imagination Technologies LLC), Posedge Inc (now liquidated into Imagination Technologies LLC) and Kisel Microelectronics AB (since renamed Imagination Technologies AB). They are analysed below.

	Developed technology £'000	Customer relationships £'000	Trade names £'000	Total £'000
<b>Cost</b>				
At 1 May 2016	60,919	8,890	1,597	71,406
At 30 April 2017	60,919	8,890	1,597	71,406
At 1 May 2017	60,919	8,890	1,597	71,406
Disposals	(42,362)	(7,153)	(1,597)	(51,112)
At 31 December 2017	18,557	1,737	—	20,294
<b>Amortization</b>				
At 1 May 2016	30,603	3,254	346	34,203
Charge for the year	4,866	1,063	107	6,036

At 30 April 2017	35,469	4,317	453	40,239
At 1 May 2017	35,469	4,317	453	40,239
Charge for the period	2,572	589	53	3,214
Disposals	(21,147)	(3,398)	(506)	(25,051)
At 31 December 2017	16,894	1,508	–	18,402
Net book value at 30 April 2017	25,450	4,573	1,144	31,167
Net book value at 31 December 2017	1,663	229	–	1,892

Goodwill was acquired through acquisitions and relates to either PowerVR, MIPS or Enigma business units, which are each considered to be single cash-generating units, as shown below:

Business Unit	Carrying value 1 May 2017 £'000	Reclassification £'000	Disposal £'000	Impairment £'000	Carrying value 31 December 2017 £'000
PowerVR	14,067	-	-	-	14,067
MIPS	23,236	1,669	24,905	-	-
Enigma	11,414	(1,669)	-	-	9,745
<b>Total</b>	<b>48,717</b>	<b>-</b>	<b>24,905</b>	<b>-</b>	<b>23,812</b>

During the eight month period to 31 December 2017 it was noted that £1,669,000 of goodwill that had arisen on an acquisition that took place in 2002 had been wrongly assigned to the Enigma CGU, therefore it was reallocated to the MIPS CGU. The MIPS business was sold to Tallwood on 25 October 2017, and therefore goodwill totaling £24,905,000 associated with this CGU was disposed of as noted in the table above.

The Enigma business was also made available for sale during the period to 31 December 2017, and the Group received a number of offers for that business. A sale was not concluded however, and when the Imagination Group was acquired by Canyon Bridge in November 2017 the decision was made to withdraw Enigma from sale and treat it as a continuing operation.

As required by IAS 36 *Impairment of Assets*, the carrying value of goodwill allocated to each CGU has been tested. Given the acquisition of the Group was completed in November 2017 for £550m, the Directors consider that the carrying value of goodwill is supportable based on this arms' length transaction. Moreover, the offers received for Enigma when it was made available for sale in 2017, also provide evidence that the carrying value of assets allocated to that CGU is recoverable based on its carrying value being less than its fair value less costs to sell.

## 7 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
<b>Cost</b>				
At 1 May 2016	52,179	5,869	39,388	97,436
Reclassification between asset class	—	—	(134)	(134)
Additions	46	64	1,849	1,959
Disposals	(14)	(320)	(2,151)	(2,485)
<b>At 30 April 2017</b>	<b>52,211</b>	<b>5,613</b>	<b>38,952</b>	<b>96,776</b>
At 1 May 2017	52,211	5,613	38,952	96,776
Reclassification between asset class	—	—	—	—
Additions	2	127	719	848
Disposals	(39,251)	(4,406)	(13,358)	(57,015)
<b>At 31 December 2017</b>	<b>12,962</b>	<b>1,334</b>	<b>26,313</b>	<b>40,609</b>
<b>Depreciation</b>				
At 1 May 2016	2,617	3,829	21,238	27,684
Reclassification between asset class	—	—	(109)	(109)
Charge for the year	883	505	5,296	6,684
Disposals	(14)	(300)	(1,151)	(1,465)
Impairment	—	—	—	—
<b>At 30 April 2017</b>	<b>3,486</b>	<b>4,034</b>	<b>25,274</b>	<b>32,794</b>
At 1 May 2017	3,486	4,034	25,274	32,794
Reclassification between asset class	—	—	—	—
Charge for the period	481	275	3,103	3,859
Disposals	(2,839)	(3,536)	(12,663)	(19,038)
<b>At 31 December 2017</b>	<b>1,128</b>	<b>773</b>	<b>15,714</b>	<b>17,615</b>
Net book value at 30 April 2017	48,725	1,579	13,678	63,982
<b>Net book value at 31 December 2017</b>	<b>11,834</b>	<b>561</b>	<b>10,599</b>	<b>22,994</b>

	At 31 December 2017 £'000	At 30 April 2017 £'000
The net book value of freehold land and buildings comprises:		
Land	1,266	7,422
Buildings	10,568	41,303
	<b>11,834</b>	<b>48,725</b>

Contained within Plant and Equipment is CAD equipment with a net book value of £4,628,000 which is deemed to have been acquired under a finance lease.

As referred to in the Financial review, in November 2017 the Group sold two of its Kings Langley headquarter freehold buildings under a sale and leaseback agreement for proceeds of £32.5m. The impact of this transaction is contained within Freehold Land and Buildings column in the above note.



## 8 Investments

	Dec 2017 £'000	Apr 2017 £'000
Trade investments classified as available for sale	3,670	5,097

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

					Fair value movement during period		
	% of shares held as at 31 December 2017	Carrying value at 1 May 2017 £'000	Increased holding in investments £'000	Disposal £'000	Income statement £'000	Statement of comprehensive income £'000	Carrying value at 31 December 2017 £'000
NetSpeed	3.6%	1,236	—	—	—	(50)	1,186
Atomos	14.2%	3,861	—	—	(521)	(856)	2,484
<b>Total</b>		<b>5,097</b>	<b>—</b>	<b>—</b>	<b>(521)</b>	<b>(906)</b>	<b>3,670</b>

NetSpeed – At the balance sheet date a loss of £50,000 arose due to foreign exchange movements and this has been recognised in the consolidated statement of comprehensive income.

Atomos – At the balance sheet date there was a reduction in the value of the investment due to foreign exchange movement of £155,000, which resulted in a carrying value of £3,706,000. Subsequent to the period end Atomos completed a financing round, which Imagination did not participate in. This identified that the carrying value of this investment was impaired by £1,221,000. This resulted in recycling all gains previously recognised through the statement of comprehensive income through the consolidated income statement (totaling £856,000), along with an additional impairment of £520,000.

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

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

The Group values these investments (Level 3) using a combination of techniques, but primarily by reference to the latest funding rounds. The Directors' also consider other factors such as management accounts and latest forecasts in determining whether there are any indicators of impairment.

## 9 Inventories

	Dec 2017 £'000	Apr 2017 £'000
Raw materials and components	-	22
Finished goods	-	54
	<hr/>	<hr/>
	-	76
	<hr/>	<hr/>

No provisions were made against inventories in the 8 months to 31 December 2017 (Apr 2017: £Nil). As at 31 December 2017 the provision for obsolescence of inventories was nil (Apr 2017: £Nil).

Raw materials, consumables and changes in finished goods and work in progress recognised as operating expenses in the period amounted to £76,000 (Apr 2017: £103,000).

## 10 Trade and other receivables

	Dec 2017 £'000	Apr 2017 £'000
Trade receivables	5,576	16,081
Accrued income	27,072	28,423
Prepayments	2,690	3,508
Other receivables	22,516	2,204
R&D credit receivable	8,134	9,678
	<hr/>	<hr/>
	65,988	59,894
	<hr/>	<hr/>

Provision for impairment of trade receivables as at 31 December 2017 was £581,000 (Apr 2017: £44,000), with the full provision recognized in the income statement during the period. The April 2017 provision of £44,000 was fully utilised during the period.

During the period the Group received £160,000 (Apr 2017: £424,000) against invoices that had previously been provided for. This amount was recognized as a credit to the income statement. Other than the provision noted above, there were no further bad debt write offs during the period (April 2017: £nil).

Included within Other receivables is £20,610,000 deferred consideration in relation to the sale of MIPS BU referred to elsewhere in this report.

## 11 Cash and cash equivalents

	Dec 2017 £'000	Apr 2017 £'000
Cash at bank – current account	3,023	17,171
Cash and cash equivalents as per consolidated statement of financial position	3,023	17,171
Cash and cash equivalents as per consolidated statement of cash flows	3,023	17,171

## 12 Trade and other payables

	Dec 2017 £'000	Apr 2017 £'000
Trade payables	2,909	7,144
Other taxes and social security	1,459	1,609
Other payables	2,609	2,358
Accruals	6,856	16,403
Deferred income	12,854	11,661
	<hr/>	<hr/>
	26,687	39,175
	<hr/>	<hr/>

There is £1,544,000 (Apr 2017: £1,571,000) included in 'Other payables' relating to liabilities owed under a finance lease that is due within 12 months. The corresponding asset has been identified and disclosed in note 7.

## 13 Provisions

	Dec 2017 £'000	Apr 2017 £'000
Restructuring provision	-	20
Onerous revenue contract provision	11,106	4,668
Other	2,748	2,830
	<b>13,854</b>	<b>7,518</b>

	Restructuring provision £'000	Onerous revenue contract provision £'000	Other £'000	Total £'000
At 1 May 2017	20	4,668	2,830	7,518
Additional provision required	-	10,555	1,874	12,429
Release of provision	(20)	-	(696)	(716)
Utilisation of provision	-	(4,117)	(1,260)	(5,377)
At 31 December 2017	-	11,106	2,748	13,854

Onerous revenue contracts relate to expected losses on specific customer contracts. The provision is based on the estimated costs to complete exceeding the total contract revenue, and therefore full provision has been made for the expected loss.

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

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

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

Of the total amount provided, £4,042,000 (Apr 2017: £400,000) is expected to fall due after more than one year and has shown as a non-current liability.

## 14 Interest bearing loans and borrowings

	Dec 2017 £'000	Apr 2017 £'000
<b>Current liabilities</b>		
Bank loan	–	3,861
<b>Non-current liabilities</b>		
Revolving credit facility	–	23,750
Bank loan	–	17,992
	<hr/>	<hr/>
	–	45,603
	<hr/>	<hr/>
Borrowings to be repaid within one year	–	3,861
Borrowings to be repaid between one and five years	–	41,742
Borrowings to be repaid over five years	–	–
	<hr/>	<hr/>
	–	45,603
	<hr/>	<hr/>

At 30 April 2017 the Group had a balance outstanding on the \$48,000,000 term loan which was used to part fund the acquisition of MIPS Technologies, Inc in 2013. The remaining outstanding amount was repaid early, and in full, in November 2017. At the same date, the drawdown of the revolving credit facility was repaid in full.

After the balance sheet date, Imagination Technologies Group Limited entered in to \$20 million loan facility arrangement with Canyon Bridge Fund I, LP, a holding company of Imagination Technologies Group Limited. The facility is interest free and repayable in full on demand, or in any event, within twelve months of the date of the first utilisation of the Facility unless the Lender agrees otherwise in writing.

## 15 Other payables

### Other non-current payables

	Dec 2017 £'000	Apr 2017 £'000
Other payables	2,399	4,742
Deferred income	-	830
	<hr/>	<hr/>
	2,399	5,572

Contained within other payables is £2,315,000 (Apr 2017: £3,498,000) due after 12 months relating to liabilities owed under a finance lease. The corresponding asset has been identified and disclosed in note 7.



## 16 Disposal of business units

On 25 October 2017 the Group completed the sale of its MIPS Business Unit ('BU') to Tallwood Venture Capital. The division was sold for cash consideration of £35,538,000 (\$47,809,000), after post closing adjustments.

<u>Results of the discontinued MIPS BU</u>	<b>Dec 2017</b>	<b>Apr 2017</b>
	<b>£'000</b>	<b>£'000</b>
Revenue	18,560	35,468
Expenses	(22,095)	(40,616)
Loss before tax	(3,525)	(4,995)
Taxation	(4,694)	215
Gain recognised on disposal of BU	247	–
Taxation on disposal of BU	–	–
<b>Loss for the period</b>	<b>(7,982)</b>	<b>(4,933)</b>

The MIPS BU assets and liabilities, and their respective book values, that were disposed of are shown below:

	<b>£'000</b>
Goodwill	24,905
Intangible fixed assets (excl goodwill)	27,655
Tangible fixed assets	1,500
Inventories	162
Trade debtors, accrued income & prepayments	11,466
Cash	93
Trade creditors, accruals & deferred income	(10,850)
Corporate tax liability	(10,525)
Deferred tax liability	(9,121)
<b>Book value of net assets disposed</b>	<b>35,285</b>

When the costs of disposal, and other costs relating to the discontinuation of the MIPS business are taken into account, the pre tax gain on disposal of the MIPS BU was £247,000.

### IMG WORKS

On 31 May 2017, the Group completed a deal which saw the employees of IMG Works and the System-on-Chip development function they provide sold to Mill Link 1 Limited for consideration of £1.

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

Within discontinued costs (see notes 2 and 3), there are £447,000 of R&D costs and £181,000 of SG&A costs (the latter excluded from adjusted EBIT), relating to IMG Works and its disposal.

### PRIOR YEAR DISPOSALS

During the period, the Group incurred £170,000 of costs relating to the Pure and IMG Systems BU's which were disposed of in the prior year. These are included in within discontinued SG&A costs excluded from adjusted EBIT (see notes 2 and 3).

## 17 Capital and reserves

### Called-up share capital

Ordinary shares of 10p each	Allotted, called-up and fully paid	
	No.	£'000
At 1 May 2017	283,941,363	28,394
Issued during period	17,652,237	1,765
At 31 December 2017	<b>301,593,600</b>	<b>30,159</b>

The rights attached to ordinary shares are as set out in the Directors' report on page 20.

### Share capital and share premium

The movement on the share capital and share premium reserve in the period arises from the issue of 17,652,237 ordinary shares issued at nil cost pursuant to the terms of various Employee Share Option Schemes. £1,765,000 relating to these shares was debited to reserves.

### Other capital reserve

The balance on the other capital reserve reflects the value of warrants issued in respect of the acquisition of Enigma Limited in March 2000.

### Merger reserve

The merger reserve arose in the Group reconstruction in 1994 prior to its flotation.

### Revaluation reserve

The revaluation reserve comprises the cumulative net change in the fair value of the trade investments classified as available for sale until the investments are derecognised.

### Translation reserve

The translation reserve reflects the exchange differences from retranslation of the opening net investments in overseas subsidiaries to closing rate.

## 18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	Dec 2017 £'000	Apr 2017 £'000	Dec 2017 £'000	Apr 2017 £'000
Within one year	3,893	3,072	10,022	9,651
In two to five years	9,428	7,591	6,967	12,213
After five years	6,971	11	-	336
	<b>20,292</b>	<b>10,674</b>	<b>16,989</b>	<b>22,200</b>

Other operating leases includes the rental of software.

## 19 Capital commitments

At 31 December 2017, the Group had contractual capital commitments of £25,000 (Apr 2017: of £318,000).

## 20 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 recognised in respect of each class of financial assets, financial liability and equity instrument are disclosed in note 1 to the financial statements.

	Notes	Dec 2017 £'000	Apr 2017 £'000
Financial assets			
Loans and receivables			
Trade and other receivables	10	36,242	28,164
Cash and cash equivalents	11	3,023	17,171
Available for sale investments	8	3,670	5,097
<b>Total financial assets</b>		<b>42,935</b>	<b>50,432</b>

	Notes	Dec 2017 £'000	Apr 2017 £'000
Financial liabilities			
Borrowings	14	-	45,603
Trade and other payables	12	12,768	27,090
Liabilities held for sale		-	244
Non-current payables	15	2,399	5,572
<b>Total financial liabilities</b>		<b>15,167</b>	<b>78,509</b>

### 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 management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk

### Net financing expense

The net finance expense in the Consolidated income statement is evidence of this risk. The Group's net finance expense for the period ended 31 December 2017 was £315,000 (Apr 2017: £5,426,000).

#### a) Foreign currency risk

The Group transacts licence and development agreements with customers 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 exchange contracts are entered into with the objective of matching their maturity with currency receipt. During the period the total value of currency contracts entered into amounted to \$44,000,000 or £33,179,000 (Apr 2017: £15,817,000). As at 31 December 2017 the outstanding currency contracts amounted to \$20,000,000 or £15,043,000 (Apr 2017: £3,198,000). The fair value of these outstanding currency contracts was £221,000 gain (Apr 2017: £109,000 gain). Any movement in fair value of these contracts, and any FX gain / loss on maturity of the contracts, has been recognised within finance income in the period.

The analysis of financial assets and liabilities by foreign currency is as follows irrespective of the functional currency of the transacting entity:

	31 December 2017					30 April 2017				
	£	\$	€	Other	Total	£	\$	€	Other	Total
Trade receivables	–	5,576	–	–	5,576	540	15,539	–	3	16,082
Other receivables	9,308	20,610	1	747	30,666	10,733	457	9	883	12,082
Cash and cash equivalents	645	1,592	(708)	1,494	3,023	11,362	4,426	(83)	1,466	17,171
Assets held for sale	–	–	–	–	–	–	–	–	–	–
Available for sale assets	–	–	–	3,670	3,670	–	5,097	–	–	5,097
Trade payables	(1,743)	(883)	(78)	(205)	(2,909)	(2,007)	(4,852)	(125)	(160)	(7,144)
Other payables	(5,237)	(3,075)	(339)	(1,208)	(9,859)	(11,588)	(7,219)	(12)	(1,127)	(19,946)
Liabilities held for sale	–	–	–	–	–	(244)	–	–	–	(244)
Borrowings	–	–	–	–	–	(23,750)	(21,853)	–	–	(45,603)
Non current payables	–	(2,315)	–	(84)	(2,399)	(53)	(5,435)	–	(84)	(5,572)
	2,973	21,505	(1,124)	4,414	27,708	(15,007)	(13,840)	(211)	981	(28,077)

The significant foreign exchange risks for the Group are USD receivables of £5,576,000 held by Imagination Technologies Limited and Imagination Technologies AB, USD Other receivables of £20,610,000 relating to accrued MIPS consideration, and USD other payables and non-current payables held by Imagination Technologies Limited which total £3,860,000. The majority of the other assets and liabilities are held within foreign subsidiaries in the respective local currencies.

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 period to 31 December 2017, each additional one cent increase or decrease in the US Dollar exchange rate against Sterling would have decreased or increased revenues by circa £679,000 (Apr 2017: £1,127,000) and profit by circa £522,000 (Apr 2017: £774,000).

### b) Interest rate risk

The Group's earnings may be affected by changes in interest rates available on bank deposits. The Group aims to maximise 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.

	December 2017			April 2017				
	Effective interest rate	< 1 year £'000	> 1 year £'000	Total £'000	Effective interest rate	< 1 year £'000	> 1 year £'000	Total £'000
<b>Cash and cash equivalents</b>								
Sterling		644	–	644		11,363	–	11,363
US Dollar		1,592	–	1,592		4,426	–	4,426
Euro		(708)	–	(708)		(83)	–	(83)
Japanese Yen		81	–	81		98	–	98
Indian Rupee		818	–	818		615	–	615
Chinese Yuan		86	–	86		247	–	247
Polish Zloty		100	–	100		101	–	101
New Zealand Dollar		–	–	–		–	–	–
Australian Dollar		181	–	181		181	–	181
Swedish Krona		143	–	143		127	–	127
Korean Won		1	–	1		43	–	43
New Taiwan Dollar		30	–	30		7	–	7
Israeli Shekel		55	–	55		46	–	46
		3,023	–	3,023		17,171	–	17,171
Floating rate	0.0%	3,023	–	3,023	0.0%	17,171	–	17,171
Fixed rate		–	–	–		–	–	–
		3,023	–	3,023		17,171	–	17,171
<b>Bank Loan</b>								
RCF draw down*		–	–	–	3.3%	–	(23,750)	(23,750)
Secured bank loan – USD*		–	–	–	3.3%	(3,861)	(17,992)	(21,853)
		–	–	–		(3,861)	(41,742)	(45,603)

\* At floating rate. See note 14 for details.

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 loan floated at 2.05% above quarterly LIBOR.

### Interest rate sensitivity analysis

In the financial period to 31 December 2017, if interest rates had been 100 basis points higher and all other variables were held constant, the Group's profit would have been decreased by circa £262,000 (Apr 2017: decreased by circa £1,013,000). Similarly, if interest rates had been 100 basis points lower and all other variables were held constant, the Group's profit would have been increased by circa £66,000 (Apr 2017: circa £251,000).

### 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.

### 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.

Ageing of trade receivables:	Gross Dec 2017 £'000	Impairment Dec 2017 £'000	Gross Apr 2017 £'000	Impairment Apr 2017 £'000
Not past due	757	—	9,804	—
Past due 0-90 days	3,982	—	5,492	—
Past due greater than 90 days	837	—	785	—
	<b>5,576</b>	<b>—</b>	<b>16,081</b>	<b>—</b>

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 minimise this risk the Group only invests funds in liquid securities. As a contingency, the Group maintains a £3 million overdraft.

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

December 2017	Carrying amount £'000	Contractual cashflows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Bank loan	—	—	—	—	—	—
RCF draw down	—	—	—	—	—	—
Trade and other payables	12,768	12,768	12,768	—	—	—
Liabilities held for sale	—	—	—	—	—	—
Non current payables	2,399	2,399	2,399	—	—	—
	<b>15,167</b>	<b>15,167</b>	<b>15,167</b>	<b>—</b>	<b>—</b>	<b>—</b>

April 2017	Carrying amount £'000	Contractual cashflows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Bank loan	21,853	21,853	3,861	17,992	—	—
RCF draw down	23,750	23,750	—	23,750	—	—
Trade and other payables	27,090	27,090	27,090	—	—	—
Liabilities held for sale	244	244	244	—	—	—
Non current payables	5,572	5,572	5,572	—	—	—
	<b>78,509</b>	<b>78,509</b>	<b>36,767</b>	<b>41,742</b>	<b>—</b>	<b>—</b>



## 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	Dec 2017 Carrying amount and fair value £'000	Apr 2017 Carrying amount and fair value £'000
<b>Financial assets:</b>			
Trade and other receivables	10	36,242	28,164
Cash and cash equivalents	11	3,023	17,171
Available for sale investments	8	3,670	5,097
<b>Financial liabilities:</b>			
Borrowings	14	-	(45,603)
Trade and other payables	12	(12,768)	(27,090)
Liabilities held for sale		-	(244)
Non current payables	15	(2,399)	(5,572)

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

### Cash and cash equivalents

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

### Available for sale investments

#### Fair value hierarchy

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

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

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

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

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

NetSpeed – the valuation is based on the purchase price of the investment, revalued based on subsequent funding rounds if applicable. This investment is categorised as Level 3.

Atomos – the valuation is based on the purchase price of the investment, revalued based on subsequent funding rounds if applicable. This investment is categorised as Level 3.

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

	Dec 2017 £'000	Apr 2017 £'000
Level 1	—	—
Level 2	—	—
Level 3	3,670	5,097
	<u>3,670</u>	<u>5,097</u>

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

	£'000
At 30 April 2017	5,097
Investment in the period	—
Total gains and losses:	
In income statement	(521)
In other comprehensive income	(906)
Disposals	—
<b>At 31 December 2017</b>	<b>3,670</b>

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

The valuation of NetSpeed and Atomos is based on the purchase price of the investment at the most recent funding rounds and any changes in the intervening period to 31 December 2017 are not materially different to these valuations.

### Capital management

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 or issue new shares. The Group's overall strategy remains unchanged from the previous financial year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to the parent. The latter comprises share capital, reserves and retained earnings as disclosed in note 17 and the consolidated statement of changes in equity. The CFO regularly monitors the capital risk on behalf of the Board.

## **21 Contingent liabilities**

The Group had no contingent liabilities at 31 December 2017 or 30 April 2017.

As part of the contractual arrangements that the Group has it is subject to limited audits by certain partners. The Directors are not aware of any matters raised by these audits that are likely to lead to a financial loss but cannot anticipate all the possible actions that may be taken or their potential consequences.

## 22 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 stakeholders deemed to be a related party under IAS24

	Dec 2017 £'000	Apr 2017 £'000
<b>Consolidated Income Statement</b>		
Revenue – Ineda*	20	–
Revenue – Atomos*	479	446
Operating expense – Orca*	(-)	(259)
Operating expense – Netspeed*	(156)	(552)
Operating expense – Canyon Bridge	(107)	–
	<b>(236)</b>	<b>(365)</b>
<b>Statement of Financial Position</b>		
Trade Debtors – Atomos*	926	193
Trade Debtors – Ineda*	521	–
Trade Creditors – Netspeed*	(-)	(120)
Accruals – Canyon Bridge	(103)	–
	<b>1,344</b>	<b>73</b>

\*The above entities are viewed to be related parties under IAS24 due to the shareholding that Imagination Technologies Group Ltd has in these entities (see note 8).

As noted elsewhere in this report, the Imagination Technologies Group was acquired during the 8 month period by funds controlled by Canyon Bridge LLP. After the balance sheet date Imagination Technologies Group Limited entered in to a \$20 million loan facility agreement with Canyon Bridge Fund I, LP, a holding company of Imagination Technologies Group Limited. See note 14 for further details.

### Transactions with key management personnel

Key management personnel comprise the executive directors. In addition to their salaries, the Group also provides non-cash benefits to executive directors and contributes to post-employment benefit schemes on their behalf. Executive 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.

The key management personnel compensations are as follows:

	Dec 2017 £'000	Apr 2017 £'000
Emoluments	745	1,471
Pension contributions	33	55
Share based payments	1,688	820
Termination benefits	1,001	–
	<b>3,467</b>	<b>2,346</b>

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	Address of registered office	Type of shares	Percentage of issued share capital held
Imagination Technologies Limited	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	100%
Imagination Technologies GmbH	Hansenweg 54, 60599 Frankfurt am Main, Germany	Ordinary	**100%
Imagination Technologies KK	AIOS Gotanda Annex Bldg 3F, Tokyo 141-0022, Japan	Ordinary	**100%
Imagination Technologies India Private Limited	2nd Floor, Bajaj IT Tower, Building Bajaj Brandview, Survey no. 25, A/1, Plot No. 38, Wakdevadi, Shivajinagar, Pune, Maharashtra 411005, India	Ordinary	**100%
Imagination Technologies Pty Limited	9 Help Street, Level 4, Chatswood, NSW 2067, Australia	Ordinary	**100%
Imagination Technologies AB	Luntmakargatan 18, SE-111 37, Stockholm, Sweden	Ordinary	*100%
Imagination Technologies Hyderabad Private Limited	3rd & 4th floors, Tower-A, Plot No 39, Ananth Info Park, Madhapur, Hyderabad 500081, India	Ordinary	**100%
Imagination Technologies (Shanghai) Co. Ltd	Room 1711-1712 Shui on Plaza, 333 Huai Hai Zhong Road, Huangpu District, Shanghai 200021, China	Ordinary	**100%
Imagination Technologies B.V. (Netherlands)	Kabelweg57, Unit 1, 06.05 A, 1014 BA, Amsterdam, Netherlands	Ordinary	**100%
MILL LINK 2 Limited*	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	**100%
MILL LINK 3 Limited*	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	**100%

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

## **23 Subsequent Events**

There were no material non adjusting subsequent events.

## **24 Ultimate parent company and parent undertaking of larger group**

The immediate parent company of Imagination Technologies Group Limited is CBFI Investment Limited, a company incorporated in England on 18 September 2017. CBFI Investment Limited will be preparing its first set of consolidated accounts for the long period ending 31 December 2018, and those accounts will incorporate the consolidated results of the Imagination Technologies Group Limited group for that period.

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

# Imagination Technologies Group Limited

## balance sheet

	Notes	As at 31 December 2017 £'000	As at 30 April 2017 £'000
<b>Fixed assets</b>			
Investment in subsidiary undertakings	3	111,775	152,259
<b>Current assets</b>			
Debtors (including £nil (Apr 2017: £50,707,000) due after more than one year)	4	48,880	81,365
Cash		500	412
		<b>49,380</b>	<b>81,777</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	5	(613)	(4,179)
<b>Net current assets</b>		<b>48,767</b>	<b>77,598</b>
<b>Total assets less current liabilities</b>		<b>160,542</b>	<b>229,857</b>
<b>Non-current liabilities</b>			
Creditors: amounts falling due after one year	5	-	(17,992)
<b>Net assets</b>		<b>160,542</b>	<b>211,865</b>
<b>Capital and reserves</b>			
Called up share capital	8	30,159	28,394
Share premium account		105,459	105,027
Other capital reserve		1,423	1,423
Share based payment reserve		93,461	80,423
Retained earnings		(69,960)	(3,402)
<b>Equity shareholders' funds</b>	9	<b>160,542</b>	<b>211,865</b>

These financial statements were approved by the Board of Directors on 27 September 2018 and were signed on its behalf by:

**Raymond Bingham**  
Director

# Statement of changes in equity

	Share capital £'000	Share premium £'000	Other capital reserve £'000	Share based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2016	27,660	103,277	1,423	67,741	(8,331)	191,770
Profit for the financial year	–	–	–	–	5,570	5,570
Issue of shares for SIP	81	–	–	–	(81)	–
Issue of shares at nil cost	560	–	–	–	(560)	–
Issue of new shares	93	1,750	–	–	–	1,843
Share-based remuneration	–	–	–	12,682	–	12,682
At 30 April 2017	28,394	105,027	1,423	80,423	(3,402)	211,865
At 1 May 2017	28,394	105,027	1,423	80,423	(3,402)	211,865
Loss for the financial period	–	–	–	–	(69,653)	(69,653)
Issue of new shares	28	432	–	–	–	460
Shares issued at nil cost	1,737	–	–	–	(1,737)	–
Share-based remuneration	–	–	–	17,870	–	17,870
Reclassification between reserves *	–	–	–	(4,832)	4,832	–
At 31 December 2017	30,159	105,459	1,423	93,461	(69,960)	160,542

\* The reclassification in the period is to transfer the element of share based payment reserve that relates to the Hellosoft Inc group to retained earnings on the basis that it the corresponding investment has been realised for qualifying consideration (see note 3).



## 1 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.

There are no new accounting policies which would have a significant impact in the current period.

### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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. The financial statements are prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future.

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 period of £69,653,000 (Apr 2017: Profit £5,570,000).

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

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;

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

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

### 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 22 of the Group financial statements.

### Share based payment

The fair value of options granted is recognised 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 recognised 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.

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

Transactions of the Company's Employee Benefit Trust are included in the Group's financial statements. In particular, the Trust's purchases and sales of shares in the Company are debited and credited directly to equity.

The assets and liabilities of the Trust are accounted for as assets and liabilities of the entity on the basis that the trust is merely acting as an agent of the entity. Under this treatment, the accounting in the entity's separate financial statements is the same as the accounting in the consolidated financial statements.

### 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.

### Related parties

The Company has a related party relationship with its subsidiaries (see note 22) and with its Board of Directors. Details of Remuneration of Key Management Personnel are disclosed in note 22.

## 2 Employees

The Company does not employ any staff, however the following were all Directors of the Company during the period but received remuneration from Imagination Technologies Limited as disclosed below:

### Remuneration of directors

	Dec 2017 £'000	Apr 2017 £'000
Directors' remuneration	901	1,829
Company contributions to money purchase pension plans	33	55
Amounts receivable under long term incentive schemes	1,688	820
Excess retirement benefits over original entitlement	-	-
Compensation for loss of office	1,108	-
Amounts paid to third parties in respect of directors' services	-	-
	<hr/> 3,730	<hr/> 2,704

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,726,000 and Company pension contributions of £21,000 were made to a money purchase scheme on his behalf. During the period, the highest paid director exercised share options and received shares under a long term incentive scheme.

### Number of Directors

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

	Dec 2017	Apr 2017
Money purchase schemes	2	2
Defined benefit scheme	0	0
	<hr/> 2	<hr/> 2
The number of directors who exercised share options was	2	-
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	2	2

### 3 Investments in subsidiary undertakings

	Dec 2017 £'000	Apr 2017 £'000
<b>Cost and net book value</b>		
At beginning of period	152,259	142,050
Addition – share based payment to employees of subsidiaries	17,870	12,682
Addition – loan to subsidiary converted to equity	47,821	-
Disposals	(106,175)	(2,473)
	<hr/>	<hr/>
At end of period	111,775	152,259

The disposals value during the 8 month period to 31 December 2017 predominantly relates to sale of the holding company for the MIPS business unit (Hellosoft Inc.) which was disposed of during the period as referred to in note 16, and elsewhere in this annual report.

At the Imagination Technologies Group Limited company only level, the loss on disposal of the MIPS business unit of £67.8m is the net of £35.5m proceeds received, less the investment book value of Hellosoft Inc. of £104.5m, plus the write off of a liability of £1.9m due to the Hellosoft Inc group, less transaction related costs of £0.7m.

Furthermore, an investment value of £1.7m in subsidiary Cross Products Limited was unsupportable following the winding up the company and is included in the disposals figure above.

### 4 Debtors

	Dec 2017 £'000	Apr 2017 £'000
Other debtors	-	36
Amounts owed by subsidiary undertakings	28,270	81,329
Accrued Income	20,610	-
	<hr/>	<hr/>
	48,880	81,365

Within Amounts owed by subsidiary undertakings in year ended 30 April 2017 was £50,707,000 owed by subsidiary undertakings due after more than one year. This subsidiary was disposed of during the period ending 31 December 2017.

### 5 Creditors: Amounts falling due within one year

	Dec 2017 £'000	Apr 2017 £'000
Bank loan	-	3,861
Accruals and deferred income	155	142
Sundry creditors	458	131
Deferred and contingent consideration	-	45
	<hr/>	<hr/>
	613	4,179

### 6 Operating leases

At 31 December 2017, the Company had no operating lease commitments (Apr 2017: £nil).

### 7 Capital commitments

At 31 December 2017, the Company had no capital commitments (Apr 2017: £nil).

### 8 Called-up share capital

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

## 9 Reconciliation of movements in equity shareholders' funds

	Dec 2017 £'000	Apr 2017 £'000
Equity shareholders' funds at the start of the period	211,865	191,770
(Loss) / profit for the financial period	(69,653)	5,570
Share-based remuneration	17,870	12,682
Issue of new shares	460	1,843
	<hr/>	<hr/>
Equity shareholders' funds at the end of the period	160,543	211,865
	<hr/>	<hr/>