

Imagination Technologies Limited

Directors' Report and Financial Statements

31 March 2001

Registered Number 1306335



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2001.

Principal Activities and Business Review

The company's principal activity, which has remained unchanged during the year, is the design, development and marketing of multimedia technology for the PC, console and arcade markets.

The results for the year are shown on page 5; amounts transferred to reserves are given in note 17 to the financial statements. The directors do not recommend payment of a dividend for the year ended 31 March 2001 (2000 : £nil).

The directors believe the company is a world leader in the new generation of multimedia technology and is well positioned to exploit the growing market for this technology.

Research and Development

The company will continue to undertake research and development activities to retain its technological advantage and competitive position in the market.

Donations

During the year, the company made donations for charitable purposes of £50 (2000 : £232).

Creditor Payment Policy

It is company policy to agree payment terms with suppliers when negotiating contracts or transactions. The company ensures that, subject to any necessary variations which may result from supplier related problems, the agreed payment terms are adhered to.

The number of days billings from suppliers outstanding to the company at 31st March 2001 was 35 days (2000: 36 days).

Directors and directors' interests

Directors

The directors who held office during the year were as follows: -

H Yassaie
K J Dale
T Selby
M C Walsh - resigned 30th June 2000

Directors report (continued)

Directors' interests in ultimate parent company

The interests of directors who held office during the financial year to subscribe for shares in the ultimate parent company, Imagination Technologies Group plc were:

	Balance as at 31 March 2000	Granted during year	Exercised during year	Balance as at 31 March 2001
K J Dale	400,000	50,000	(15,000)	435,000
M C Walsh	25,000	-	(25,000)	-

The interests of directors who are also directors of the ultimate parent company, Imagination Technologies Group plc, were disclosed in the report and accounts of that company.

The market price of the shares in Imagination Technologies Group plc at 31 March 2001 was 115.5p and the range during the financial year was 97.5p to 475p.

During the financial year, K Dale exercised 10,000 options with an exercise price of 36p when the market price was 271p, and 5,000 options with an exercise price of 64p when the market price was 332p.

During the financial year, M C Walsh exercised 25,000 options with an exercise price of 47p when the market price was 373p.

Auditor

Pursuant to a shareholder's elective resolution the company is not obliged to reappoint its auditor annually and KPMG Audit plc will, therefore, continue in office.

By order of the Board



A Llewellyn
Secretary
23 January 2002

Home Park Estate
Kings Langley
Hertfordshire WD4 8LZ

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the auditor to the members of Imagination Technologies Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

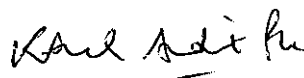
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit plc

Chartered Accountants and Registered Auditors

1 Puddle Dock, London EC4V 3PD

25 January 2002

Profit and loss account
for the year ended 31 March 2001

	Note	2001 <u>£'000</u>	2000 <u>£'000</u>
Turnover	2	17,821	16,854
Cost of sales		<u>(4,506)</u>	<u>(3,056)</u>
Gross profit		13,315	13,798
Research and development expenses		(7,990)	(6,905)
Sales and administrative expenses		(2,127)	(2,243)
Other operating income	3	<u>25</u>	<u>-</u>
Operating profit	4	3,223	4,650
Net interest receivable and similar income	7	22	18
Amounts provided against group borrowings	8	<u>(90)</u>	<u>3</u>
Profit on ordinary activities before taxation		3,155	4,671
Tax on profit on ordinary activities	9	<u>(721)</u>	<u>(665)</u>
Profit on ordinary activities after taxation		<u>2,434</u>	<u>4,006</u>

The results for 2001 and 2000 are derived from continuing activities, and are prepared on a historical cost basis.

A statement of the movement on reserves is set out in note 17 to these accounts.

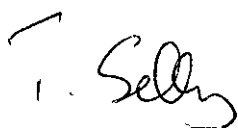
Statement of total recognised gains and losses
for the year ended 31 March 2001.

	2001 <u>£'000</u>	2000 <u>£'000</u>
Profit for the financial year	2,434	4,006
Gain on currency translation	<u>11</u>	<u>72</u>
Total gains recognised since last Annual Report	<u>2,445</u>	<u>4,078</u>

Balance sheet
as at 31 March 2001

	Note	2001 <u>£'000</u>	2000 <u>£'000</u>
Fixed Assets			
Intangible assets	10	215	170
Tangible assets	11	4,873	3,429
Investments	12	<u>120</u>	<u>120</u>
		5,208	3,719
Current assets			
Stock and work in progress	13	1,078	965
Debtors	14	3,218	3,776
Cash at bank and in hand		<u>1,270</u>	<u>1,498</u>
		5,566	6,239
Creditors: amounts falling due within one year	15	<u>(18,107)</u>	<u>(19,736)</u>
Net current liabilities		<u>(12,541)</u>	<u>(13,497)</u>
Total assets less current liabilities		<u>(7,333)</u>	<u>(9,778)</u>
Capital and reserves			
Called up share capital	16	14,161	14,161
Profit and loss account	17	<u>(21,494)</u>	<u>(23,939)</u>
Shareholders' deficit - equity	18	<u>(7,333)</u>	<u>(9,778)</u>

These financial statements were approved by the board of directors on 23 January 2002 and were signed on its behalf by:



T Selby
Director

Notes

(forming part of the financial statements)

1. Accounting Policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £7,333,000, which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Imagination Technologies Group plc, the company's ultimate parent undertaking. Imagination Technologies Group plc has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

The company is exempt by virtue of S.228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard No 1, the company is exempt from the requirement to prepare a cash flow statement on the basis that the ultimate parent company, Imagination Technologies Group plc, includes the company in its own published consolidated financial statements.

Turnover

Turnover represents the sale of goods to third parties, development income and royalties received under licence agreements.

Sales of goods to third parties are accounted for net of VAT and returns.

License fees are recognised to the extent that the technology being licensed has been completed.

Notes (continued)

Development income received for design and development services provided to third parties under contracts is matched against the costs of providing the services subject to the achievement of contracted milestones.

Royalty fees are recognised as they are earned.

Depreciation

Tangible fixed assets are depreciated to write down their cost 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 buildings	2 per cent on cost
Leasehold improvements	Equally over the period of the lease
Plant and equipment	20 per cent to 33 per cent on cost

Research and development costs

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

Intellectual property rights and patents

Trademarks and patents are capitalised at cost of acquisition and registration and amortised over the anticipated period of profitable exploitation.

Stock and work in progress

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

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

Deferred taxation

Provision is made for deferred taxation using the liability method on all timing differences to the extent that a liability is expected to arise in the foreseeable future.

Foreign exchange

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

Notes (continued)

Government grants

Revenue grants are taken to the profit and loss account in the period when the relevant expenditure is incurred.

Operating Leases

Rental charges in respect of operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension Scheme

The company contributes to a defined contribution pension plan. Payments are charged to the profit and loss account in the period to which they relate.

2. Turnover and segmental analysis

Turnover is derived from a single business segment and comprises development income and royalties from licencing agreements for the design of multimedia technology and from the sale of multimedia products.

Turnover is analysed by geographical area of sales as follows:

	2001	2000
	<u>£'000</u>	<u>£'000</u>
United Kingdom and Europe	7,972	5,833
North America	495	222
Rest of world	<u>9,354</u>	<u>10,799</u>
	<u>17,821</u>	<u>16,854</u>

All turnover originated from the United Kingdom and Europe.

3. Other operating income

Other operating income of £25,000 (2000: £ nil) represents Government grants receivable in respect of certain research and development projects.

Notes (continued)

4. Operating profit

	2001	2000
	<u>£'000</u>	<u>£'000</u>
Operating profit is stated after charging/(crediting):		
Depreciation and amortisation of owned tangible and intangible assets	1,263	1,079
Auditors' remuneration:		
Audit	32	30
Other services (including other fees paid to the auditors and their associates)	22	16
Operating lease rentals:		
Other operating leases	267	264

5. Remuneration of directors

	2001	2000
	<u>£'000</u>	<u>£'000</u>
Directors' emoluments:		
Remuneration as executives	<u>515</u>	<u>461</u>

Remuneration includes pension contributions of £17,166 (2000: £20,000) and the monetary value of benefits in kind such as the use of company cars and health insurance. Three of the directors have retirement benefits accruing to them under a defined contribution pension scheme.

The directors' interest to subscribe for share options in the ultimate parent company are disclosed in the directors' report.

The emoluments of the highest paid director, was £145,924 (2000: £141,000), which included pension contributions of £9,375 (2000: £8,250).

Notes (continued)

6. Staff number and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was:

	Number of employees	
	<u>2001</u>	<u>2000</u>
Research and development	117	97
Production	10	10
Administration	21	14
Marketing	<u>15</u>	<u>15</u>
	<u>163</u>	<u>136</u>

The aggregate payroll costs of these persons were:

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Wages and salaries	5,455	4,610
Social security costs	581	509
Other pension costs	<u>274</u>	<u>191</u>
	<u>6,310</u>	<u>5,310</u>

7. Net interest receivable

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Interest receivable and similar income	24	19
Less interest payable:		
Amounts payable on bank loans and overdrafts	<u>(2)</u>	<u>(1)</u>
	<u>22</u>	<u>18</u>

8. Amounts written off/credited to investments

An amount of £90,000 has been written off during the year against amounts owed by subsidiary undertakings (2000: £3,000 credit).

9. Taxation

The taxation charge for the financial period comprises £715,000 tax deducted at source on overseas earnings not recoverable in the period (2000: £665,000) and £6,000 (2000:Nil) corporation tax charge.

Notes (continued)

10. Intangible fixed assets

	Patents & Trademarks	
	2001 £'000	2000 £'000
Cost		
At 1 April	609	534
Additions	109	75
Disposals	-	-
At 31 March	<u>718</u>	<u>609</u>
Amortisation		
At 1 April	439	381
Charged in year	64	58
Disposals	-	-
At 31 March	<u>503</u>	<u>439</u>
Net Book Value		
At 31 March	<u>215</u>	<u>170</u>

11. Tangible fixed assets

	Freehold Land and Buildings £'000	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 April 2000	248	519	6,259	7,026
Additions	-	78	2,571	2,649
Disposals	-	-	(110)	(110)
At 31 March 2001	<u>248</u>	<u>597</u>	<u>8,720</u>	<u>9,565</u>
Depreciation				
At 1 April 2000	-	164	3,433	3,597
Charge for year	5	45	1,149	1,199
On disposals	-	-	(104)	(104)
At 31 March 2001	<u>5</u>	<u>209</u>	<u>4,478</u>	<u>4,692</u>
Net book value				
At 31 March 2001	<u>243</u>	<u>388</u>	<u>4,242</u>	<u>4,873</u>
At 31 March 2000	<u>248</u>	<u>355</u>	<u>2,826</u>	<u>3,429</u>

Notes (continued)

12. Investments

Shares in subsidiary undertakings	2001	2000
	£'000	£'000
Cost		
At 1 April 2000 and 31 March 2001	1,778	1,778
Provision for diminution in value		
At 1 April 2000 and 31 March 2001	<u>(1,658)</u>	<u>(1,658)</u>
Net book value	<u>120</u>	<u>120</u>

The company owns 100% of the ordinary share capital of the following subsidiary undertakings:

Subsidiary undertakings	Country of registration	Principal activity
VideoLogic Inc	USA	Supply of multimedia enabling products
VideoLogic GmbH	Germany	Supply of multimedia enabling products
Metagence Technologies Limited	England and Wales	Dormant

13. Stock and work in progress

	2001	2000
	£'000	£'000
Raw materials and components	355	308
Work in progress	-	96
Finished goods	<u>723</u>	<u>561</u>
	<u>1,078</u>	<u>965</u>

14. Debtors

	2001	2000
	£'000	£'000
<i>Amounts falling due within one year</i>		
Trade debtors	2,261	899
Amounts owed by subsidiary undertakings	33	172
Other debtors	58	66
Prepayments and accrued income	<u>866</u>	<u>2,639</u>
	<u>3,218</u>	<u>3,776</u>

Notes (continued)

15. Creditors: amounts falling due within one year

	2001 <u>£'000</u>	2000 <u>£'000</u>
Trade creditors	1,183	561
Amounts owed to parent undertaking	15,212	17,508
Amounts owed to subsidiary undertakings	100	100
Amounts owed to fellow subsidiary undertaking	805	805
Taxation and social security	239	199
Other creditors	-	1
Accruals and deferred income	<u>568</u>	<u>562</u>
	<u>18,107</u>	<u>19,736</u>

16. Called up share capital

	2001 <u>£'000</u>	2000 <u>£'000</u>
<i>Authorised</i>		
15,000,000 ordinary shares of £1 each	<u>£15,000</u>	<u>£15,000</u>
<i>Allotted, called up and fully paid</i>		
14,161,291 ordinary shares of £1 each – equity	<u>£14,161</u>	<u>£14,161</u>

17. Profit and loss account

	2001 <u>£'000</u>	2000 <u>£'000</u>
At 1 April	(23,939)	(28,017)
Profit for the financial year	2,434	4,006
Gain on currency translation	<u>11</u>	<u>72</u>
At 31 March	<u>(21,494)</u>	<u>(23,939)</u>

Notes (continued)

18. Reconciliation of movements in shareholders' funds

	2001 <u>£'000</u>	2000 <u>£'000</u>
Profit for the financial year	2,434	4,006
Other recognised profits relating to the year	11	72
New share capital subscribed	<u>-</u>	<u>147</u>
Net addition to shareholders' funds	2,445	4,225
 Opening shareholders' funds	 <u>(9,778)</u>	 <u>(14,003)</u>
 Closing shareholders' funds	 <u>(7,333)</u>	 <u>(9,778)</u>

19. Commitments

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

	2001 <u>£'000</u>	2000 <u>£'000</u>
Authorised and contracted	<u>186</u>	<u>670</u>

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

	2001		2000	
	Land & buildings £'000	Other £'000	Land & Buildings £'000	Other £'000
Operating leases which expire:				
• Within one year	-	4	-	26
• In two to five years	-	-	-	5
• Over five years	<u>205</u>	<u>-</u>	<u>200</u>	<u>-</u>
	<u>205</u>	<u>4</u>	<u>200</u>	<u>31</u>

20. Pension scheme

Imagination Technologies Limited is a member of the Imagination Technologies Group plc defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost of £274,000 (2000: £191,000) represents contributions paid by the company to the fund. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes (continued)

21. Related party transactions

As the company is a wholly owned subsidiary of Imagination Technologies Group plc, the company has taken advantage of the exemption in Financial Reporting Standard No 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Imagination Technologies Group plc can be obtained from the address given in Note 24.

22. Deferred taxation

The amounts recognised and unrecognised for deferred taxation are:

	31 March 2001		31 March 2000	
	£'000	£'000	£'000	£'000
	Amount	Amount	Amount	Amount
	Recognised	Unrecognised	Recognised	Unrecognised
Accelerated capital allowances	-	64	-	19
Losses	-	<u>2,640</u>	-	<u>3,596</u>
	<u>-</u>	<u>2,704</u>	<u>-</u>	<u>3,615</u>

As at 31 March 2001 and 31 March 2000, there was an unrecognised deferred tax asset due to the trading losses available.

23. Post Balance Sheet Event

On 28th September 2001, Imagination Technologies Group plc acquired the entire issued share capital of Cross Products Limited with net assets of £1.7m for consideration of £4.3m. On 30th September 2001, the assets and liabilities of Cross Products Limited were transferred to Imagination Technologies Limited at net book value.

24. Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of Imagination Technologies Group plc, which is the ultimate parent company, in whose financial statements the results of Imagination Technologies Limited are consolidated. Imagination Technologies Group plc is incorporated and registered in England and Wales. Copies of its financial statements may be obtained from Home Park Estate, Kings Langley, Hertfordshire WD4 8LZ.