

Imagination Technologies Group plc

Directors' Report and Financial Statements

31 March 2004

Registered Number 2920061



Directors' Report

The Directors submit their annual report and audited financial statements for the year ended 31st March 2004.

Activities

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

Results

The results of the Group for the year to 31st March 2004 are set out in detail in the consolidated profit and loss account on page 35.

The Directors do not propose the payment of a dividend (2003: £nil).

A review of business and financial developments and future prospects has been included in the Chairman's Statement and Chief Executive's Review. This incorporates any significant events since the year end. Further details are included in pages 10 to 24 of the annual report.

Research and development

The Group spent £16,096,000 (2003: £12,891,000) on research and development and advanced technology projects.

Donations

During the year the Group made donations for charitable purposes of £186 (2003: £70). There were no political donations during the year (2003: £nil). The Parent Company made no donations in the current year (2003: £nil).

Directors

G S Shingles, H Yassaie, T Selby, I R Pearson and D A Hurst-Brown continued to serve as Directors throughout the year.

In accordance with the Company's Articles of Association, G S Shingles, I R Pearson and D A Hurst-Brown retire by rotation at the Annual General Meeting of the Company to be held on 5th August 2004 and will offer themselves for re-election.

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

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

The disclosable interests of Directors at 31st March 2004 including holdings, if any, of wives and children aged under 18 were as detailed in Note 4 to the financial statements at 31st March 2004 and remain unchanged at 20th May 2004.

Substantial interests

As at 10th May 2004 the Company had been notified or was aware that the following had direct or indirect interests in 3% or more of the share capital of the Company:

	Ordinary Shares of 10p in the Company	Percentage Holding
M&G Investment Management	23,808,885	13.2%
Merrill Lynch Investment Managers	13,767,649	7.6%
Herald Investment Management	12,021,845	6.7%
Threadneedle Asset Management	11,455,929	6.4%
Barclays Stockbrokers	8,406,550	4.7%
Legal & General Investment Management	6,997,268	3.9%
Killik & Co Management	6,217,163	3.5%

Going concern basis

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

Creditor payment policy

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

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

The number of days billings from suppliers outstanding to the Group at 31st March 2004 was 45 days (2003: 28 days). The Parent Company is purely a holding Company with investments and does not have trade creditors.

International Financial Reporting Standards

The Group prepares its consolidated accounts in accordance with generally accepted accounting principles (GAAP) in the United Kingdom. The Group will report under International Financial Reporting Standards (IFRS) from 30th September 2005. Detailed analysis of the impact of IFRS is ongoing.

Auditors

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

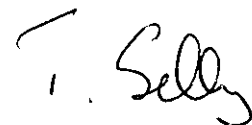
Special business at the Annual General Meeting

At the Annual General Meeting to be held on 5th August 2004, two resolutions comprising items of special business will be proposed.

Resolution 8 will authorise the Directors, pursuant to section 80 of the Companies Act 1985, to allot relevant securities without the prior consent of shareholders, such authority to last until the conclusion of the next Annual General Meeting after the passing of the resolution (or, if earlier, the date fifteen months after the date of passing of the resolution). The £6,004,608 nominal amount of relevant securities to which this authority relates represents 33 $\frac{1}{3}$ % of the nominal amount of issued share capital of the Company as shown in the Annual Report for the year to 31st March 2004. The Directors would exercise this authority if they believed that to do so would be in the best interests of the shareholders generally. Resolution 6 will be proposed as an ordinary resolution.

Resolution 9 empowers the Directors, pursuant to section 95 of the Companies Act 1985, to allot equity securities for cash without first being required to offer them to existing shareholders but such power being limited to the allotment of equity securities in connection with rights issues or up to a maximum nominal amount of £900,691 representing 5% of the issued share capital of the Company as shown in the Annual Report for the year to 31st March 2004. This authority will also terminate at the conclusion of the next Annual General Meeting after the passing of the resolution (or, if earlier, the date fifteen months after the date of passing of the resolution). Resolution 9 will be proposed as a special resolution.

Registered Office:
Imagination House
Home Park Estate
Kings Langley
Hertfordshire
WD4 8LZ



By order of the Board
T Selby
Secretary
20th May 2004

Corporate Governance

The Board is responsible to shareholders for the effective direction and control of the Group and this report describes the framework of corporate governance and internal controls that the Directors have established to enable them to carry out this responsibility. It also explains, in accordance with the Listing Rules, how the Group has applied the Code of Best Practice set out in the Combined Code, and the one area of non-compliance which is noted at the end of this section.

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

The Board

The Company is controlled through the Board of Directors, which throughout the year consisted of 5 directors, 2 non-executive and 3 executive, including the Chairman who carries out his duties on a part-time basis. The Chairman is primarily responsible for the running of the Board, and the Chief Executive Officer is responsible for the day to day management of the business and for implementing Group strategy.

The Board meets formally at least nine times a year and is responsible for the overall direction and strategy of the Group. The Chief Financial Officer prepares a full financial review for each of these meetings.

There is a formal agenda of items to be addressed at Board Meetings which includes matters specifically reserved for the Board. By also attending and monitoring the content of meetings and agendas, the Directors consider that there is sufficient structure to ensure the Company's strategy and control remain in its hands.

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

The Management Board for each Division meets on a monthly basis, with attendance by Executive Directors. The full activities of each division are reviewed to ensure that strategic and business goals are being achieved.

The Board is aware of the principle in the new Combined Code that it should undertake an annual evaluation of its performance and that of its committees and individual directors, and intends to proceed with such an evaluation during 2004.

As the Board is small, a Nominations Committee has not been appointed. All nominations to the Board will be considered by the full Board.

All Directors, in accordance with the Code, will submit themselves for re-election at least every three years.

Audit Committee

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

The Audit Committee has written terms of reference. The Committee will hold meetings with the external auditors whenever it feels it needs advice or clarification of issues, but in any case the Audit Committee meets formally with the external auditors at least once per year. The Committee ensures the objectivity and credibility of the financial reporting and that in presenting the results to shareholders the Directors have exercised the due care, diligence and skill prescribed by law.

Remuneration Committee

A description of the composition, responsibility and operation of the remuneration committee is set out in the remuneration report on pages 31-33.

Independent Non-Executive Directors

The Board considers that the Non-Executive Directors are independent and free from any relationship which could materially interfere with the exercise of their independent judgement.

Mr Pearson received £1,100 in the year in respect of consultancy advice provided to the Group during the previous year.

Mr Pearson is the senior Non-Executive Director.

Independent Professional Advisers

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

Financial reporting

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

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

Relations with shareholders

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

Shareholders have at least 21 days notice of the Annual General Meeting. In addition to the formal AGM proceedings, the Directors make a full presentation to shareholders to explain developments in the business over the last year and this is followed by an open question and answer session which provides shareholders with the opportunity to ask Directors questions about the business. The AGM is held at the Company's main office in Kings Langley where shareholders can visit demonstration rooms displaying the Group's technology and meet senior divisional employees.

Environmental statement

The prime activity of the Group is the development of hardware and software designs by employees working on computers in offices. It therefore has a limited direct impact on the environment. Nevertheless, the Group endeavours, where possible, to promote and support practices and use of resources in an environmentally friendly manner.

Internal controls

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurances against material misstatement or loss.

In compliance with the requirements of the Combined Code (the Turnbull Report), the Directors reviewed the existing risk management processes in place within the operating businesses to document and report on significant areas of business risks and their controls. There is an ongoing process for the effective identification, evaluation and management of significant risks faced by the Group.

This process continues to be in place at the date of approval of the Annual Report and Accounts. Under this process the Board reviews risks associated with the business on a regular basis.

Executive members of the Board have day to day involvement in all aspects of the business and attend monthly divisional management meetings at which both financial and operational performance against target is reviewed. Any items found during the monthly review which do not meet previously agreed targets are discussed in order to ensure that any corrective actions are implemented. An assessment of specific operational risk areas is presented to the Board for review on a regular basis.

A detailed annual budget is set and approved by the Board. Expenditure is controlled against formal authorisation limits. Major items of capital expenditure and all treasury matters are reserved for members of the Board alone.

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

Compliance Statement

The Listing Rules require the Board to report on compliance with the provisions throughout the accounting period. Save the exception listed below, the Company has complied throughout the current accounting period ended 31st March 2004 with the provisions set out in Section 1 of the Code.

Audit Committee – The Audit Committee does not consist of three non-executive directors as required by the Code. During the financial year, the committee has consisted of two non-executive directors, which the Board considers is adequate for the size of the Company and consistent with the New Combined Code which took effect from 1st April 2004.

Remuneration Report

The Board has established a Remuneration Committee ('the Committee') to advise it on an appropriate remuneration policy. During the financial year the members of the Remuneration Committee have been I R Pearson and D A Hurst-Brown. The Committee Chairman is I R Pearson.

The Committee is responsible for determining and agreeing with the Board the remuneration packages of the Executive Directors, including basic salary, annual bonuses, the allocation of share options and LTIPs and the terms of any performance conditions to apply to the exercise of such rights, pension rights, determining their terms and conditions of service, and any compensation payments and to ensure that such remuneration levels are appropriate and acceptable. The remuneration of I R Pearson and D A Hurst-Brown is established by the Executive Directors of the Board. The Committee also has discussions with the board in relation to the board's annual report to shareholders on the Group's policy on the remuneration of executive directors and in particular the directors' remuneration report, as required by the Companies Act 1985 (as amended), the Combined Code and the Listing Rules of the Financial Services Authority.

Remuneration policy

In implementing its policy, the Committee has given full consideration to the Principles of Good Governance set out in the Combined Code with reference to directors' remuneration. The key objectives of the remuneration policy are to ensure that pay and benefits packages are sufficiently competitive to attract, develop and retain high calibre executives. During the course of the financial year the Committee carried out a review of the benefits package. The review considered input from external sources and compared findings to similar sized companies in similar industry types. As a result of this review, appropriate changes were made to ensure a competitive and well-balanced package was maintained. It also seeks to align individual reward and incentives with the performance of the Group and, hence, with the interests of the shareholders.

Directors' remuneration

The main elements of the Executive Directors remuneration are:

Basic salary

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

Performance related bonus

Executive Directors participate in a bonus scheme which is linked to the achievement of annual financial targets set by the Remuneration Committee. These targets have regard to the budget agreed at the beginning of each financial year and to operational targets. The maximum bonus entitlement is one-third of basic salary or lower, as set by the Remuneration Committee. Performance related bonus is not pensionable.

The Board agreed to suspend the bonus scheme in respect of the year ending 31st March 2004.

Share options

The Committee aims to ensure that individuals are fairly rewarded for their contribution to the success of the Company and the grant of share options provides an incentive in a highly competitive labour market. The Company operates a number of share option schemes, including approved and unapproved key employee schemes, a long-term incentive plan (LTIP) scheme and a save as you earn (SAYE) scheme. Discretionary options are granted at market value whilst SAYE have been issued at a 20% discount to market value.

The discretionary options have performance criteria based on the achievement of targets in the market price of Imagination Technologies shares. The discretionary options issued to directors have the performance conditions attached to them as set out on page 33. The SAYE scheme does not have performance conditions.

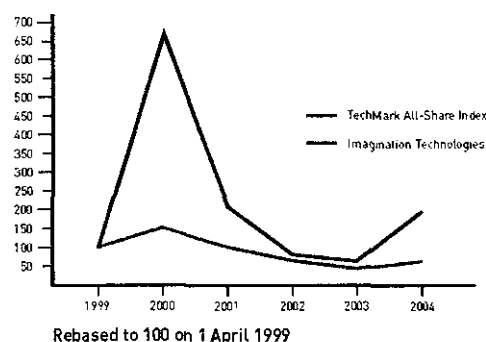
Company policy is to review on a regular on-going basis by reference to other comparable companies the incentive provided to employees throughout the company by the grant of share options to ensure that employees are retained and incentivised.

Pension policy

Executive Directors are eligible to become members of the Group Personal Pension Plan which is a defined contribution scheme. There are no special arrangements for Executive Directors.

Total shareholders' return

Total cumulative shareholder return for the five-year period to 31 March 2004



Rebased to 100 on 1 April 1999
In the total shareholder return analysis the TechMark All-Share Index has been chosen to compare the performance of the Company's share price against an index of comparable companies.

Service contracts

The Executive Directors of Imagination Technologies Group plc all have ongoing service contracts dated 31st March 1998 which are subject to 6 months notice. The Remuneration Committee regards the notice period in these contracts as being appropriate. In the event of termination of an Executive Director's service contract there are no specific compensation entitlement provisions in the contracts with respect to termination, other than the notice period.

Remuneration policy for Non-Executive Directors

The remuneration for Non-Executive Directors consists of fees for their services in connection with Board and Committee meetings and where appropriate for devoting additional time and expertise for the benefit of the Company. Non-Executive Directors do not have contracts of service, are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive schemes. The remuneration of Non-Executive Directors is determined by the Executive Directors of the Board.

Directors' emoluments

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

	Salary and fees £	Bonus £	Consultancy fees £	Benefits in kind £	Total £	Comparative 2003 £	Pension 2004 £	Pension 2003 £
Executive Directors								
G S Shingles	86,000	—	—	740	86,740	86,650	—	—
H Yassaie	156,000	—	—	740	156,740	144,650	10,875	9,975
T Selby	115,000	—	—	740	115,740	108,650	7,800	7,275
Non-Executive Directors								
I R Pearson	20,000	—	1,100	—	21,100	29,900	—	—
D A Hurst-Brown	20,000	—	—	—	20,000	20,000	—	—
TOTAL	397,000	—	1,100	2,220	400,320	389,850	18,675	17,250

Directors' share options

The following table sets out the options the Directors have in the shares of Imagination Technologies Group plc.

The market price of the shares at 31st March 2004 was 107.5p and the range during the financial year was 24.25p to 114p.

	Balance at 31st March 2003	Exercised during the year	Granted during the year	Balance at 31st March 2004	Exercise price	Date from which first exercisable	Expiry date
G S Shingles	100,000	100,000	—	—	45p	July 1997	June 2004
	599,590	—	—	599,590	98.5p	July 1999	June 2006
	*350,000	—	—	*350,000	64p	Aug 2000	Aug 2008
	**30,767	—	—	**30,767	21.5p	Nov 2005	Apr 2006
H Yassaie	1,000,000	—	—	1,000,000	64p	Aug 2001	Aug 2008
	*500,000	—	—	*500,000	64p	Aug 2000	Aug 2008
	*1,000,000	—	—	*1,000,000	64p	Aug 2003	Aug 2011
	**30,767	—	—	**30,767	21.5p	Nov 2005	Apr 2006
T Selby	268,000	—	—	268,000	91p	July 1999	July 2006
	*400,000	—	—	*400,000	64p	Aug 2000	Aug 2008
	*300,000	—	—	*300,000	64p	Aug 2003	Aug 2011
	**30,767	—	—	**30,767	21.5p	Nov 2005	Apr 2006
TOTAL	4,609,891	100,000	—	4,509,891			

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

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

The market price of the shares at the date of the exercise was 108.75p.

In July 1996, an option over 599,590 shares at a grant price of 98.5p was granted to G S Shingles with an option period of 6 years and 11 months. During the year, the remuneration committee agreed that the option period should be amended to 9 years and 11 months to make it consistent with all options granted under the Key Employee Share Option Schemes.

As at 20th May 2004 there had been no changes in the balance of options outstanding.

Executive Directors – Share option performance conditions:

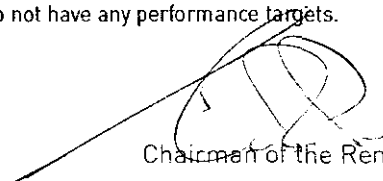
The option granted to G S Shingles in July 1996 over 599,590 shares has no performance conditions.

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

The option granted to T Selby in July 1996 over 268,000 shares is exercisable if the share price growth at the date of exercise is at least greater than the percentage increase in the Retail Price Index.

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

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



I R Pearson
Chairman of the Remuneration Committee

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 Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

(i) Select suitable accounting policies and then apply them consistently.

(ii) Make judgements and estimates that are reasonable and prudent.

(iii) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

(iv) Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 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.

Independent Auditors Report to the Members of Imagination Technologies Group plc.

We have audited the financial statements on pages 35 to 51. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' remuneration report. As described on page 33, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority, 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 whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 group is not disclosed.

We review whether the statements on pages 29 to 30 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 and the part of the Directors' remuneration report to be audited. 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 group'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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2004 and of the loss of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
20th May 2004

Consolidated Profit and Loss Account

Year to 31st March	Notes	2004 £'000	2003 £'000
Group turnover	2	31,215	19,568
Cost of sales		(14,066)	(7,649)
Gross profit		17,149	11,919
Research and development expenses		(16,096)	(12,891)
Sales and administrative expenses		(5,083)	(4,652)
Other operating income		—	42
Group operating loss before goodwill amortisation		(3,012)	(4,541)
Goodwill amortisation		(1,018)	(1,041)
Group operating loss	3	(4,030)	(5,582)
Share of loss of associated undertaking		(4)	(170)
Total operating loss		(4,034)	(5,752)
Net interest receivable	5	155	177
Loss on ordinary activities before taxation		(3,879)	(5,575)
Taxation	6	613	248
Loss on ordinary activities after taxation for the financial year		(3,266)	(5,327)
Loss per share			
Basic	7	(1.8p)	(3.1p)
Basic – before goodwill amortisation		(1.3p)	(2.5p)
Diluted	7	(1.8p)	(3.1p)
Diluted – before goodwill amortisation		(1.2p)	(2.5p)

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

There is no difference between the total reported result for the year and that on a historical cost basis.

Consolidated Statement of Total Recognised Gains and Losses

Year to 31st March	2004 £'000	2003 £'000
Loss for the financial year	(3,266)	(5,327)
(Loss)/gain on currency translation	(40)	9
Total recognised losses relating to the year	(3,306)	(5,318)

The loss/gain on currency translation arises on the retranslation of overseas subsidiaries.

Balance Sheets

	Notes	Group at 31st March		Parent Company at 31st March	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets					
Intangible assets	8	4,114	5,034	—	—
Tangible assets	9	4,115	3,875	—	—
Investment	10	413	459	21,415	21,415
		8,842	9,368	21,415	21,415
Current assets					
Stock and work in progress	11	2,003	1,571	—	—
Debtors	12	4,500	3,293	27,758	23,226
Cash at bank and in hand	13	6,498	6,082	236	188
		13,001	10,946	27,994	23,414
Creditors: amounts falling due within one year	14	(5,752)	(5,900)	(205)	(203)
Net current assets		7,249	5,046	27,789	23,211
Total assets less current liabilities		16,091	14,414	49,204	44,626
Capital and reserves					
Called up share capital	15	18,014	17,039	18,014	17,039
Share premium account	16	30,134	25,854	30,134	25,854
Other capital reserve	16	267	221	267	221
Shares to be issued	16	—	274	—	274
Warrant reserve	16	1,157	1,201	1,157	1,201
Merger reserve	16	2,402	2,402	—	—
Profit and loss account	16	(35,883)	(32,577)	(368)	37
Shareholders' funds-equity	17	16,091	14,414	49,204	44,626

These financial statements were approved by the Board of Directors on 20th May, 2004 and were signed on its behalf by:



G S SHINGLES
Director

Consolidated Cash Flow Statement for the year ended 31st March 2004

	Notes	2004		2003	
		£'000	£'000	£'000	£'000
Cash outflow from operating activities	23		(3,062)		(2,085)
Returns on investments and servicing of finance					
Interest received		128		199	
Interest paid		(3)		(2)	
Net cash inflow from returns on investments and servicing of finance			125		197
Taxation			576		248
Capital expenditure and financial investments					
Purchase of tangible fixed assets		(1,995)		(996)	
Purchase of intangible fixed assets		(209)		(217)	
Net cash outflow for capital expenditure and financial investments			(2,204)		(1,213)
Cash outflow before use of liquid resources and financing			(4,565)		(2,853)
Acquisitions					
Purchase of subsidiary undertakings		—		(200)	
Net cash outflow from acquisitions and disposals			—		(200)
Management of liquid resources					
Cash inflow from liquidation of short term deposits			903		3,530
Financing					
Issue of shares			4,981		—
Increase in cash in the period	24, 25		1,319		477

Notes to the Financial Statements

1. Accounting Policies

The following accounting policies have been consistently applied throughout the year.

Basis of preparation

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. Profits arising on trading between Group undertakings are excluded. All companies within the Group make up their financial statements to the same date.

Under the exemption given in the Companies Act 1985, s230 the Parent Company does not present its own profit and loss account.

Turnover

Turnover comprises:-

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

In principle, revenue is recognised to the extent that the Group has obtained the right to consideration through its performance.

Revenue from licences is recognised on delivery to the customer. Revenue on licence agreements for products which are either not finished or which need to be modified to meet specific customer requirements is recognised on a percentage-to-completion basis over the period from starting development of the product to delivery. The percentage-to-completion is measured by monitoring progress compared with the total estimated project requirement. Progress is measured by an assessment of performance against key development milestones.

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

Where invoicing milestones on licence or development arrangements are such that the proportion of work performed is greater than the proportion of the total contract value which has been invoiced, the Group evaluates whether it has obtained, through its performance to date, the right to the uninvoiced consideration and therefore whether revenue should be recognised. In particular it considers whether there is sufficient certainty that the invoice will be raised in the expected timeframe, 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 has the right to consideration, taking into account these criteria, revenue is not recognised until there is sufficient evidence that the Group has obtained the right to consideration for its performance under such arrangements.

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.

Revenues from the sale of products to support technology licensees and systems products utilising the Group's technology to third parties are recognised upon delivery and are accounted for net of VAT and returns.

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
Motor vehicles	25 per cent on cost

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the identifiable net assets acquired) arising on consolidation in respect of acquisitions is capitalised.

Goodwill is amortised to nil by equal annual installments over its estimated useful life. The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises.

The goodwill arising on the acquisitions of Enigma Limited and Cross Products Limited are being amortised on a straight line basis over 7 years.

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.

Taxation

The credit for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Tax charges or credits arising on the retranslation of foreign currency borrowings used to finance or provide a hedge against equity investments in foreign enterprises are taken to the Statement of Total Recognised Gains and Losses together with the exchange differences on the borrowings themselves.

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.

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

The Group attempts to reduce its foreign currency exposure, where appropriate, by entering into forward currency contracts. The Group accounts for these contracts by revaluing the associated transaction at the forward contract rate and charging the resulting gain or loss through the profit and loss accounts for the year.

Government grants

Revenue grants are taken to the profit and loss account in the period when the relevant expenditure was 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 schemes

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

Cash and liquid resources

Cash, for the purpose of the Cash Flow Statement, comprises cash in hand and deposits repayable on demand. Liquid resources are short term investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying value. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Associated undertakings

An associated undertaking is one in which the Group has a long term investment and exercises significant influence over the company in which the investment is made. The Group's share of the results and net assets of its associated undertaking is included in the Consolidated Profit and Loss Account and Balance Sheet under the equity method of accounting.

2. Turnover and Segmental Analysis

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

	2004 £'000	2003 £'000
Turnover is analysed by geographical area of sales as follows:		
United Kingdom and Europe	21,462	10,241
Asia	6,544	6,632
North America	1,899	1,541
Rest of the world	1,310	1,154
	31,215	19,568

All turnover originated from the United Kingdom and Europe

The operating loss and net assets of the Group materially relate to United Kingdom and Europe.

3. Operating loss

	2004 £'000	2003 £'000
Operating loss is stated after charging/(crediting):		
Depreciation and amortisation of owned tangible and intangible fixed assets	2,841	2,709
Loss on disposal of fixed assets	—	5
Auditors' remuneration		
Audit [Parent company £10,000, (2003: £10,000)]	48	45
Other fees paid to the auditors and their associates	10	7
(Gain) on exchange	(344)	(10)
Operating lease rentals		
Hire of plant and machinery	7	3
Other operating leases	1,058	572
Other operating income — Government grant	—	(42)

4. Directors and Employees

4.1 Directors' emoluments

	2004 £'000	2003 £'000
Emoluments	400	390
Pension contributions	19	17
Gain on the exercise of option	64	—
	483	407

The above remuneration includes contributions paid by the Company to a defined contribution pension scheme on behalf of two of the Directors.

	2004 £'000	2003 £'000
The emoluments of the highest paid Director were:	157	145

Pension contributions of £10,875 were made on behalf of the highest paid Director (2003: £9,975).

Full details of the Directors' remuneration are set out in the Remuneration Report on pages 31-33.

4.2 Directors' interests

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

Ordinary shares of 10p beneficially owned at 31st March

	2004	2003
G S Shingles	130,170	130,170
H Yassaie	420,000	420,000
T Selby	74,000	82,000
I R Pearson	30,000	38,000
D A Hurst-Brown	100,000	100,000

As at 20th May 2004 there had been no changes in the above interests.

Information on the options held by Directors is set out in the Remuneration Report on pages 31-33.

4.3 Staff numbers and costs

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

	2004	2003
Research and Development	202	171
Production	13	13
Administration	31	25
Sales and Marketing	27	26
	273	235

The aggregate payroll costs of these persons were:

	£'000	£'000
Wages and salaries	10,192	8,371
Social security costs	1,130	964
Other pension costs	515	441
	11,837	9,776

5. Net interest receivable

	2004 £'000	2003 £'000
Interest receivable and similar income	158	179
Less interest payable:		
Bank overdraft repayable within five years	(3)	(2)
Net interest receivable	155	177

6. Taxation

Analysis of the tax charge in the period

	2004 £'000	2003 £'000
Foreign tax	262	474
Tax under accrual on previous year	—	2
Current tax charge on income in the period	—	—
Research and development tax credit	(838)	(724)
Share of associated undertaking tax credit	(37)	—
	(613)	(248)

The tax charged for the period differs from the standard rate of Corporation Tax in the UK (30%).

The differences are explained below:

Loss on ordinary activities before taxation	(3,879)	(5,575)
Loss on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 30% (2003: 30%)	(1,164)	(1,673)
Effects of:		
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes (including goodwill amortisation)	(430)	(327)
Tax effect of timing difference	1,304	1,193
Unrelieved losses	336	929
Prior year underaccrual	—	2
Research and development tax credit	(838)	(724)
Withholding tax	216	352
Share of associated undertaking tax credit	(37)	—
Current tax charge for period	(613)	(248)

Deferred taxation

The amounts recognised and unrecognised for deferred taxation are:

	31 March 2004 £'000 Amount recognised	31 March 2004 £'000 Amount unrecognised	31 March 2003 £'000 Amount recognised	31 March 2003 £'000 Amount unrecognised
Accelerated capital allowances	—	1,415	—	944
Short term timing differences	—	78	—	107
UK subsidiary losses	—	4,155	—	4,548
	—	5,648	—	5,599

As at 31st March 2004, and 31st March 2003, there is an unrecognised deferred tax asset due to the trading losses available.

7. Loss per share

	2004 £'000	2003 £'000
Loss attributable to shareholders	(3,266)	(5,327)
Goodwill amortisation	1,018	1,041
Loss attributable to shareholders before goodwill amortisation	(2,248)	(4,286)

	2004	2003
	Shares 000's	Shares 000's
Weighted average number of shares in issue	176,678	170,386
Effect of dilutive shares Options	8,434	1,532
Warrants	6	60
Diluted weighted average number of shares potentially in issue	185,118	171,978

		2004	2003
Loss per share	Basic	(1.8p)	(3.1p)
	Basic – before goodwill amortisation	(1.3p)	(2.5p)
	Diluted	(1.8p)	(3.1p)
	Diluted – before goodwill amortisation	(1.2p)	(2.5p)

8. Intangible Fixed Assets – Group

	Goodwill	Patents and Trademarks	Total £'000
Cost			
At 1st April 2003	7,129	1,105	8,234
Additions	—	243	243
At 31st March 2004	7,129	1,348	8,477
Amortisation			
At 1st April 2003	2,499	701	3,200
Charge for the year	1,018	145	1,163
At 31st March 2004	3,517	846	4,363
Net book value at 31st March 2004	3,612	502	4,114
Net book value at 31st March 2003	4,630	404	5,034

There are no intangible fixed assets in the Parent Company.

9. Tangible Fixed Assets – Group

	Freehold Land and Buildings £'000	Leasehold improvements £'000	Plant and equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1st April, 2003	248	800	9,891	12	10,951
Additions	93	122	1,700	5	1,920
Disposals	—	—	(84)	(12)	(96)
At 31st March, 2004	341	922	11,507	5	12,775
Depreciation					
At 1st April, 2003	14	319	6,737	6	7,076
Charge for the year	5	96	1,571	6	1,678
Disposals	—	—	(84)	(10)	(94)
At 31st March, 2004	19	415	8,224	2	8,660
Net book value at 31st March, 2004	322	507	3,283	3	4,115
Net book value at 31st March, 2003	234	481	3,154	6	3,875

The net book value of freehold land and buildings comprises:

	2004 £'000	2003 £'000
Land	56	56
Buildings	266	178
	322	234

There are no tangible fixed assets in the Parent Company.

10. Investments

	Shares in subsidiary undertakings £'000	Shares in participating interest £'000	Trade Investment £'000
Cost and net book value – Group			
At 1st April 2003	—	459	—
Share of operating profit for year	—	88	—
Transfer to trade investment	—	(547)	547
Additions	—	—	66
At 31st March 2004	—	—	613
Cost and net book value – Parent Company			
At 1st April 2003	21,415	—	—
Additions	—	—	—
At 31st March 2004	21,415	—	—

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

Name of subsidiary undertaking	Country of incorporation and of operation	Type of shares	Percentage of issued share capital held
Imagination Technologies Limited	UK	Ordinary	100%
PowerVR Technologies Limited*	UK	Ordinary	100%
Metagence Technologies Limited*	UK	Ordinary	**100%
Enigma Technologies Limited*	UK	Ordinary	100%
VideoLogic Systems Limited*	UK	Ordinary	100%
Cross Products Limited*	UK	Ordinary	100%
PURE Digital Limited*	UK	Ordinary	**100%
VideoLogic GmbH	Germany	Ordinary	**100%
VideoLogic Inc	USA	Ordinary	**100%
Imagination Technologies KK	Japan	Ordinary	100%

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

With effect from 11th October 2003, the Group's percentage of issued share capital held in Frontier Silicon reduced below 20% and the Group ceased to exert a significant influence over Frontier Silicon. Therefore, as from this date, the Group's shareholding in Frontier Silicon has been treated as a Trade Investment.

11. Stock and work in progress

	2004 £'000	2003 £'000
Raw materials and components	839	913
Finished goods	1,164	658
	2,003	1,571

The Parent Company does not hold any stock.

12. Debtors

	Group		Parent Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	2,731	2,481	—	—
Prepayments and accrued income	636	661	14	10
Loan stock	1,000	—	—	—
Amounts owed by subsidiary undertakings	—	—	27,744	23,216
Other debtors	133	151	—	—
	4,500	3,293	27,758	23,226

The loan stock is non-interest bearing and includes £795,000 which is expected to be repaid after more than one year. All other amounts fall due within one year.

13. Cash

	Group		Parent Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Cash deposits	4,523	5,426	—	187
Cash at bank and in hand	1,975	656	236	1
	6,498	6,082	236	188

14. Creditors: Amounts falling due within one year

	Group		Parent Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade creditors	3,117	1,987	—	—
Other creditors including tax and social security	538	278	—	—
Accruals and deferred income	2,097	3,635	205	203
	5,752	5,900	205	203

15. Called Up Share Capital

Ordinary shares of 10p each

	Authorised		Allotted, called up and fully paid	
	No.	£'000	No.	£'000
At 1st April 2003	250,000,000	25,000	170,390,532	17,039
Issued during year	—	—	9,747,723	975
At 31st March 2004	250,000,000	25,000	180,138,255	18,014

8,500,000 ordinary shares were issued fully paid on 3rd July 2003 to institutional investors pursuant to a placement. The market price of the shares immediately prior to placement was 56p. The consideration for these shares was £4,410,229. 60,000 ordinary shares were issued fully paid during the course of the year in consideration of the acquisition of Enigma Limited. The consideration for these shares was based on the closing market price on the day preceding the acquisition.

1,187,723 (2003: 4,602) ordinary shares were issued fully paid during the course of the year pursuant to the terms of the various Employee Share Option Schemes. The consideration for these shares was £570,871 (2003: £460).

The following options have been granted under the Imagination Technologies Key Employee Share Option Schemes, Savings Related Share Option Scheme, Long Term Incentive Plan and the Enigma acquisition and remain outstanding at 31st March, 2004.

Year of Issue	Outstanding at 31st March 2004	Exercise price	Date from which first exercisable	Expiry date
1994	28,900	45p	1997	2004
1995	5,000	49p	1998	2005
1995	18,800	29.5p	1998	2005
1995	95,000	45.5p	1998	2005
1996	268,000	91p	1999	2006
1996	599,590	98.5p	1999	2006
1997	866,800	47.5p	2000	2007
1997	90,000	36p	2001	2008
1997	1,543,000	47p	2001	2008
1998	1,000,000	64p	2001	2008
1998	**1,588,750	64p	2000	2008
1999	4,118,500	53p	2001	2008
1999	431,000	195p	2002	2009
2000	#259,021	10p	2000	2010
2000	1,033,500	212p	2003	2010
2000	**50,000	212p	2002	2010
2001	**1,300,000	64p	2004	2011
2001	136,257	51.5p	2004	2005
2001	2,900,000	46p	2004	2011
2002	2,673,702	21.5p	2005	2006
2002	2,633,800	19p	2005	2012
2003	1,783,500	34.5p	2006	2013
2003	287,000	60p	2006	2013
Total	23,710,120			

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

Options marked # have been granted in respect of the acquisition of Enigma Limited.

16. Reserves

	Share Premium £000	Other Capital Reserve £000	Shares to be Issued £'000	Warrant Reserve £'000	Merger Reserve £'000	Profit and Loss Account £'000
Group						
As at 1st April 2003	25,854	221	274	1,201	2,402	(32,577)
Loss for the financial year	—	—	—	—	—	(3,266)
Gain on currency translation	—	—	—	—	—	(40)
Acquisition consideration	268	46	(274)	(44)	—	—
Premium on the issue of new shares	4,012	—	—	—	—	—
At 31st March 2004	30,134	267	—	1,157	2,402	(35,883)
Parent Company						
As at 1st April 2003	25,854	221	274	1,201	—	37
Result for the financial year	—	—	—	—	—	(405)
Acquisition consideration	268	46	(274)	(44)	—	—
Premium on the issue of new shares	4,012	—	—	—	—	—
At 31st March 2004	30,134	267	—	1,157	—	(368)

The reserve movements in respect of acquisition consideration arise from the issue of 60,000 ordinary shares fully paid and the exercise of 10,001 warrants in respect of the acquisition of Enigma Limited.

17. Reconciliation of movements in shareholders' funds

	Group		Parent Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Shareholders' funds at 1st April	14,414	19,732	44,626	44,958
Loss for the financial year	(3,266)	(5,327)	(405)	(332)
(Loss)/gain on currency translation	(40)	9	—	—
New share capital subscribed (net of expenses)	4,983	—	4,983	—
Shareholders' funds at 31st March	16,091	14,414	49,204	44,626

18. Operating leases

At 31st March 2004, the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year	—	10	—	—
In two to five years	284	79	1,005	374
After five years	177	382	—	—
	461	471	1,005	374

These operating leases all relate to the Group. The Parent Company has no operating lease commitments.

19. Capital commitments

At 31st March 2004, the Group had contracted for capital commitments of £824,000 (2003: £437,000); £747,000 of this relates to the purchase of a freehold building. The Company had no capital commitments (2003: £nil).

20. Financial instruments

Use of financial instruments

The Group's objectives in using financial instruments are the management of foreign exchange risk and the maximisation of returns from financial assets.

The Group transacts licence and development agreements with customers and purchases of products for PURE Digital primarily in US dollars and, therefore, the Group's earnings are exposed to fluctuations in foreign exchange rates. The Group reviews its foreign exchange exposure on a regular basis and, if there is a material exposure to exchange rate fluctuations and the Board considers it appropriate, the Group will reduce the risk by currency hedging on net receivable/payable balances. Forward contracts are entered into with the objective of matching their maturity with currency receipt. As at 31 March 2004 and 31 March 2003 there were no outstanding currency contracts.

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 mainly market deposits with major clearing banks accordingly.

The Group had no long-term debt at 31 March 2004 or 2003. Numerical disclosures are set out below.

Interest rate risk of financial instruments

	Weighted average interest rate %	Cash at bank and in hand £'000	2004 Cash deposits £'000	Total £'000	Cash at bank and in hand £'000	2003 Cash deposits £'000	Total £'000
Sterling		816	2,730	3,546	898	1,807	2,705
US Dollars		1,113	1,726	2,839	(244)	3,425	3,181
EU currencies		41	67	108	2	194	196
Yen		5	—	5	—	—	—
		1,975	4,523	6,498	656	5,426	6,082
Floating rate	1.2%	1,975	—	1,975	656	—	656
Fixed rate	2.5%	—	4,523	4,523	—	5,426	5,426
		1,975	4,523	6,498	656	5,426	6,082

The fixed rate cash deposits were placed with banks for one day and earned interest of between 0.7% and 3.7%. Floating rate cash earns interest based on LIBID equivalents.

Fair values of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Deposits – the carrying value approximates fair value because of the short maturity of those instruments.

Foreign currency forward contracts – the fair value of foreign currency forward rates is estimated using the settlement rates. The fair value of forward currency contracts did not differ materially from the carrying value due to the short maturity periods of the contracts.

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

Currency exposure

The table below shows the extent to which group companies have monetary assets and liabilities in currency other than their local currency. Foreign exchange differences on re-translation of these assets and liabilities are taken to the profit and loss account of the group companies and the Group.

	2004				2003		
	US Dollars £'000	Euro £'000	Yen £'000	Total £'000	US Dollars £'000	Euro £'000	Total £'000
Functional currency of group operation							
Sterling	1,244	194	10	1,448	2,148	308	2,456
Other currencies	—	—	—	—	—	—	—
Total	1,244	194	10	1,448	2,148	308	2,456

21. Contingent liabilities

The Group had no contingent liabilities on 31st March 2004 or on 31st March 2003

22. Pension commitments

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

23. Reconciliation of operating profit to operating cash flows

	2004 £'000	2003 £'000
Operating loss	(4,030)	(5,582)
Depreciation and amortisation charges	2,841	2,709
Investment in respect of services provided	(66)	(307)
(Increase) in stock	(487)	(728)
(Increase)/decrease in debtors	(1,177)	1,150
(Decrease)/increase in creditors: amounts falling due within one year	(143)	1,110
(Decrease) in creditors: amounts falling due after one year	—	(437)
Net cash outflow from operating activities	(3,062)	(2,085)

24. Reconciliation of net cash flow to movement in net funds

	2004 £'000	2003 £'000
Increase in cash in the period	1,319	477
Cash flow from decrease in liquid resources	(903)	(3,530)
Movement in net funds in the period	416	(3,053)
Net funds at 1st April	6,082	9,135
Net funds at 31st March	6,498	6,082

25. Analysis of changes in net funds

	As at 1st April 2003 £'000	Cash Flow £'000	As at 31st March 2004 £'000
Cash in hand, at bank	656	1,319	1,975
Cash on deposit	5,426	(903)	4,523
	6,082	416	6,498

26. Related parties

Sales of goods and services to Frontier Silicon Limited during the period in which it was an associate were £600,000 (2003: £1,649,000).

Purchases of goods from Frontier Silicon Limited during the period in which it was an associate were £3,104,000 (2003: £2,743,000).

Five Year Record

Profit and loss		2004	2003	2002	2001	2000
		£'000	£'000	£'000	£'000	£'000
Group turnover		31,215	19,568	13,504	17,821	16,854
Cost of sales		(14,066)	(7,649)	(4,460)	(4,506)	(3,056)
Gross profit		17,149	11,919	9,044	13,315	13,798
Research and development expenses		(16,096)	(12,891)	(10,944)	(7,990)	(6,905)
Sales and administration expenses		(5,083)	(4,652)	(3,991)	(3,369)	(2,588)
Other operating income		—	42	63	25	—
Group operating profit/(loss) before goodwill amortisation		(3,012)	(4,541)	(5,018)	2,629	4,305
Goodwill amortisation		(1,018)	(1,041)	(810)	(648)	—
Group operating profit/(loss)		(4,030)	(5,582)	(5,828)	1,981	4,305
Share of loss of associated undertaking		(4)	(170)	(86)	—	—
Total operating profit/(loss)		(4,034)	(5,752)	(5,914)	1,981	4,305
Net interest receivable		155	177	482	642	429
Profit/(loss) on ordinary activities before taxation		(3,879)	(5,575)	(5,432)	2,623	4,734
Taxation		613	248	(115)	(721)	(665)
Profit/(loss) on ordinary activities after taxation		(3,266)	(5,327)	(5,547)	1,902	4,069
Earnings per share	Basic	(1.8p)	(3.1p)	(3.3p)	1.2p	2.5p
	Basic – before goodwill amortisation	(1.3p)	(2.5p)	(2.8p)	1.6p	2.5p
	Diluted	(1.8p)	(3.1p)	(3.3p)	1.1p	2.4p
	Diluted – before goodwill amortisation	(1.2p)	(2.5p)	(2.8p)	1.5p	2.4p
Balance Sheet						
Fixed assets		8,842	9,368	11,004	8,984	8,151
Current assets		13,001	10,946	14,489	16,743	14,678
Current liabilities and provisions		(5,752)	(5,900)	(5,324)	(2,532)	(1,664)
Net current assets		7,249	5,046	9,165	14,211	13,014
Amounts falling due after one year		—	—	(437)	(200)	(500)
Net assets		16,091	14,414	19,732	22,995	20,665
Called up share capital		18,014	17,039	17,032	16,439	16,349
Capital reserves		33,960	29,952	29,959	28,349	28,007
Profit and loss account		(35,883)	(32,577)	(27,259)	(21,793)	(23,691)
Shareholders' funds – equity		16,091	14,414	19,732	22,995	20,665

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

Notice of Meeting

Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Imagination Technologies Group plc will be held at Imagination Technologies, Imagination House, Home Park Estate, Kings Langley, Herts WD4 8LZ on 5th August 2004 at 11.00 a.m. for the following purposes:

1. To receive and approve the audited financial statements for the year ended 31st March 2004, together with the Directors' and Auditors' reports.
2. To approve the Remuneration Report for the year ended 31st March 2004 as set out in the Annual Report.
3. To reappoint G S Shingles as a Director.
4. To reappoint I R Pearson as a Director.
5. To reappoint D A Hurst-Brown as a Director.
6. To reappoint KPMG Audit Plc as auditors.
7. To authorise the Directors to agree the auditor's remuneration.

As special business to consider and, if thought fit, pass the following resolutions, of which resolution 8 will be proposed as an ordinary resolution and resolution 9 will be proposed as a special resolution:

8. That:

(1) the Directors be generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985, to exercise all powers of the Company to allot relevant securities (as defined for the purposes of that section) up to a maximum nominal amount of £6,004,608; and

(2) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, the date fifteen months after the date of passing of this resolution); and

(3) the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted after it expires.

9. That:

(1) subject to the passing of resolution 8 set out in the notice of the Annual General Meeting of the Company convened for 5th August 2004, the Directors be given power to allot for cash equity securities (as defined for the purposes of section 89 of the Companies Act 1985) pursuant to the general authority conferred on them by that resolution under section 80 of that Act as if section 89(1) of that Act did not apply to the allotment but this power shall be limited to:

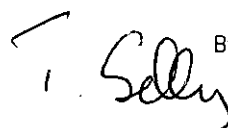
(i) the allotment of equity securities in connection with an offer or issue to, or in favour of, ordinary shareholders on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective number of ordinary shares held by them on that date but the Directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and

(ii) to the allotment (other than under (i) above) of equity securities having, in the case of relevant shares (as defined for the purposes of section 89), a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £900,691.

(2) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, the date fifteen months after the date of passing of this resolution); and

(3) the Company may, before this power expires, make an offer or agreement which would or might require equity securities to be allotted after it expires.

Registered Office:
Imagination House
Home Park Estate
Kings Langley
Hertfordshire
WD4 8LZ

 By order of the Board
T Selby
Secretary

Dated 20th May 2004

Notes

1. A member entitled to attend and vote at the meetings is entitled to appoint one or more proxies to attend and to vote on a poll instead of him. A proxy need not be a member of the Company. The lodging of a proxy will not prevent a member from attending the meeting and voting in person should he decide to do so.
2. Forms of proxy should be completed in accordance with the notes on the enclosed form and should be lodged with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for the meetings or any adjourned meeting together with the power of attorney or other authority (if any) under which it is signed (or, in the case of an authority signed by an agent of a member who is not a corporation, an office copy or a copy certified by that member, a solicitor, a notary public or stockbroker, or, in the case of an authority signed by an officer or agent of a corporation, a notarially certified copy).
3. Copies of all service contracts (or memoranda of the terms thereof) made between the Directors and the Company or any of its subsidiaries (other than those expiring or terminable within 12 months by the employing company without payment of compensation) will be available for inspection a) during normal business hours at the Company's registered office on each business day and b) at the place of meeting for at least 15 minutes prior to, and during, the meeting.

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