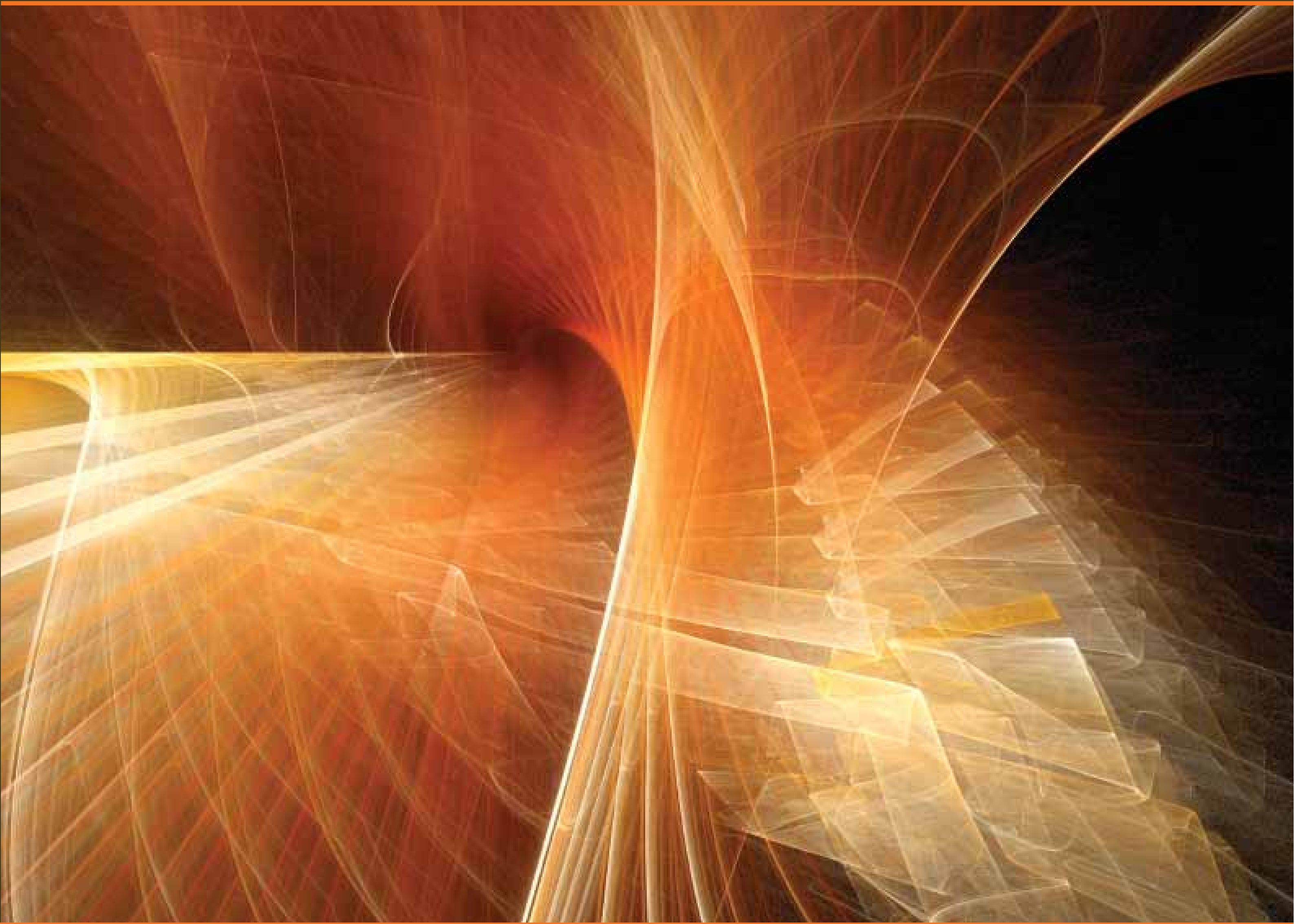
Pace®



PACE PLC
ANNUAL REPORT & ACCOUNTS '08

REPORT CONTENTS

Pace is the leading independent developer of digital TV technologies for the payTV industry

FINANCIAL HIGHLIGHTS

- **Record revenues of £745.5m (7 mths ended 31 Dec 2007: £249.9m).**
- **Group profit before tax, amortisation of other intangibles and exceptional items increased significantly to £28.5m (7 mths ended 31 Dec 2007: £15.4m). Profit before tax was £13.8m (seven months ended 31 December 2007: £15.4m)**
  - Organic growth saw revenues increase to £452.6m and profit before tax, amortisation of other intangibles and exceptional items to £20.1m.
  - Pace France delivered a strong contribution with revenues of £292.9m and profit before tax, amortisation of other intangibles and exceptional items of £8.4m (for the period 21 April to 31 December 2008).
- **Strong balance sheet with net cash of £37.7m (7 mths ended 31 Dec 2007: net borrowings £12.1m) and new banking facilities.**
- **Gross margin 18.1% (7 mths ended 31 Dec 2007: 20.3%), reflecting the increased diversification of the enlarged Group product mix.**
- **Basic earnings per share of 4.0p (7 mths ended 31 Dec 2007: 6.3p), with adjusted earnings per share of 7.8p.**
- **Exceptional charges of £11.0m including £2m costs relating to the successful Pace France integration which will deliver future ongoing savings.**
- **Initiation of dividend, with full-year dividend of 0.6p recommended.**

OPERATING HIGHLIGHTS

- **Record operating performance**
  - Volume shipments increased substantially to 13.1m set-top boxes (seven months ended 31 December 2007: 2.4m), including nearly 6 million from Pace France.
- **Increased market share through the Pace France acquisition and organic growth, becoming a top three global player.**
- **A series of high profile products launched**
  - Over 20 new HDPVR products for markets worldwide, unmatched by any competitor.
  - A digital to analogue converter (DTA) for the US cable market ahead of all major competitors.
- **Winner of a 2008 Queen's Award for International Trade.**

LETTER FROM THE CHAIRMAN

Mike McTighe

I am delighted to be reporting back to you after a year of great progress at Pace, in which we have seen this business become a true world leader in digital TV.

When management set out their strategy for 2008 they promised to deliver on a number of milestones and I am very happy to report that they have delivered all these and more.

In 2008, despite the extraordinary macro economic environment, Pace achieved excellent growth and met all of the management team's targets with record revenues and shipments, a significant increase in profits and a strong cash position with no debt. Last time I reported I outlined a margin target of 20% for 2008, with the business achieving just over 18% due to a more diversified product mix. Going forwards we intend to use 'return on sales' as the measure of overall performance as we believe we have achieved the cost consciousness across the organisation expected from a pure margin target.

During the year Pace acquired the Royal Philips Electronics set-top box business, and executed a swift, efficient integration plan that delivered profitability even sooner than we expected. For the financial year 2008 we have reported the headline results of two businesses separately so shareholders can see how the Pace France business has performed, as well as the original Pace business. Going forwards you will see us report Pace Group as one entity.

Pace's success during 2008 was recognised by the business world. The Company was awarded the Queen's Award for International Trade, was Yorkshire Exporter of the Year and regional winner of the International Trade Awards.

One of the economic challenges for many companies in 2008, particularly in the electronics sector, has been very volatile currency exchange rates: the dollar strengthened dramatically, as did the Euro. The management team dealt quickly and efficiently with this issue when it arose in the fourth quarter, and implemented a series of measures including an enhanced hedging policy. It is a measure of the new Group's agility that it coped so quickly and well with this challenge.

The Board welcomed two new non-executive directors; Mike Inglis and John Grant. Mike is executive Vice President and General Manager of the processor division of ARM Holdings and John has held senior financial roles in the automotive industry and other engineering businesses. I would like to take this opportunity to thank Rob Fleming and Marten Fraser who both stood down from the Board during 2008. Rob was a Pace founder and has made an immense contribution to the business over many years.

The Board is pleased to have seen the performance of Pace this year, and our belief in the management team, the fundamentals of the business and the opportunities for growth give us great confidence for 2009 and beyond. Your Board is therefore delighted to be recommending the initiation of an annual dividend, with a full-year dividend of 0.6p per share proposed.

If you have comments on any aspect of this letter or indeed, any part of the Annual Report, I would be delighted to hear from you either by writing to me at Pace or by email at mike.mctighe@pace.com.

Yours sincerely

Mike McTighe
Chairman

3 March 2009

CHIEF EXECUTIVE OFFICER'S REVIEW

Neil Gaydon

In 2008 we shaped our business for global leadership, with Pace ending the year a much stronger business with twice the geographic reach and scale, delivering excellent results.

Our Vision is to deliver 'Great products to our customers every time' and become a renowned leader in creating the technologies and products that enable digital TV. We have said that we will establish Pace at the heart of entertainment convergence in the digital TV household, delivering on the enormous global demand for high definition and PVR products as well as solutions that deliver digital TV into hard to reach places such as apartment blocks and hotels. We have promised that all of our work will be underpinned by strong environmental design values.

Pace works primarily with payTV operators, organisations that own entertainment content consumers want to watch. These payTV operators have driven every major change in how we watch TV as they compete to win subscribers and increase their revenue generating opportunities, which for many is now based on the concept of triple-play. The payTV market has the highest barriers to entry and demands specialist skills. Over the past 25 years Pace has built the know-how and relationships to succeed in this highly competitive environment. In the last three years, following a major structural and strategic review, we have delivered uninterrupted growth in profits, consistently exceeding market expectations.

Strategy delivery

Our strategy has two key themes around industry leadership and convergence in the digital home. PayTV offers excellent value home entertainment and it is delivered by operators that understand the consumer desire for high quality, yet easy to use content and services. The set-top box makes this possible in the home. We are now experiencing the positive output from our leadership strategy as payTV operators work with Pace to seek out new services that will allow them to retain and expand their subscriber base and revenues.

This theme and market focus plays to Pace's strengths in digital TV engineering and our ability to launch new products ahead of the competition. We demonstrated our leadership in 2008 when we delivered over 20 high definition PVR designs for payTV operators around the world and were first to market with a revolutionary low-cost digital to analogue converter for US cable. None of our competitors could match these achievements.

In April 2008 we acquired the set-top box business of Royal Philips Electronics and immediately renamed the business Pace France. We rapidly integrated the new business operations, teams and customers into the Pace Group and we were very pleased to generate profits ahead of our original plan. This result demonstrated the extent to which the Pace business methodology is scalable and it showed the effectiveness of our systems and processes, which have successfully transformed both our core business and Pace France. It is also thanks to the commitment of our teams around the world to create the new Pace business. Pace is now a global top three company in our sector and we have more payTV operator customers and a wider product reach than any of our major competitors.

Trading performance

The Pace Group, including Pace France, continued to win new customers and expand market share with existing operators. This has enabled us to grow while maintaining a balance of revenues from a wide range of payTV operators across all geographic markets, reducing risk and dependencies with the business.

In 2008 we achieved record revenues of £745.5m and delivered a significant increase in our profit before tax, exceptional items and amortisation of other intangibles at £28.5m. We have now delivered seven periods of uninterrupted profit growth. In making this happen we shipped a record number of set-top boxes, 13.1m, our highest ever annual total. That we were able to double the size of our business, revenues and shipments during 2008 has shown how we have created a resilient business. Customers are at the heart of our business and we have created a model that enables us to respond with the flexibility and speed they demand whilst being able to grow and acquire with minimum disruption.

Our results are also an indicator of the importance consumers place on high quality home entertainment, particularly when they are facing unprecedented economic times and are being forced to make difficult decisions on discretionary spend. For many, the most popular entertainment spend is TV as few alternatives offer the same value for money.

The resilience of our business is further exemplified by the strength of our balance sheet. We have no debt, we are running the business from our own cash and will do so going forwards after closing the year with a positive net cash balance of over £37m. We are also seeing the benefits of the acquisition in terms of the added scale and associated cost savings, which we will continue to drive.

Despite this backdrop of increased interest in home entertainment Pace is not completely immune to wider economic developments and along side the rest of the electronics industry, we have contended with issues around foreign exchange since the majority of our components are bought in US dollars, with many finished products being sold in other currencies. Our existing hedging policy protected us for most of 2008 and a new hedging programme will enable us to manage volatility during 2009.

Going forwards we are introducing return on sales (ROS) as a new performance indicator after concentrating on gross margin for the last few years. Now as our product mix changes, as we target high and low-end opportunities and start to rollout infrastructure products from our Networks group, margin is no longer the best overall measure of success. Refocusing our business around ROS is helping establish a new mindset as we take Pace to the next level.

Market Insight

Our strategy recognises it is the payTV industry, rather than the free to air market, that has consistently driven the landmark changes in how we watch TV: operators have the content, the protection, distribution, customer relationships and the brand. They understand how to deliver an entertainment service to the consumer. PayTV was born during the transition from four channels to multichannel TV and operators were first to introduce programme guides, interactive services, PVR and invest in the delivery of high definition TV. Each new innovation, large or small demands a new set-top box development, at a speed and rate of change that cannot be delivered through the TV.

We have built our leadership position by having the right products to fuel the digital TV revolution and are now a global top three set-top box business. We are primarily focused on payTV and by 2012 revenues in this market are forecast to reach $182bn, in an overall market for digital TV that will see annual set-top box shipments reach 200 million units per year.

Growth during this period will be characterised by waves of digital upgrades as more countries move to digital through payTV operator launches and government mandated analogue switch off programmes. Pace will capitalise by working with payTV operators and in targeted retail markets on PVR and high definition products as well as digital converter devices that accelerate digital transition and free up operator bandwidth for expanding high definition services. A great example of this is the Digital-to-Analogue converter (DTA) that we launched last year for Comcast in the US. Advancements in flat screen technology have created a significant embedded base of homes that now require a set-top box to access the majority of HD content.

Each payTV product we create is unique, designed for the specific requirements of an operator's services and network. It takes between 12 and 18 months from project initiation to product delivery and most designs are updated within 18 months to incorporate new features, technology upgrades and cost-down design improvements. In addition we play an important role managing our set-top boxes post-deployment, for example making 'over the air' software upgrades, due to our ownership of the product's source code. Consequently our customer relationships are typically close and long-term.

These opportunities, within the context of a conservative and measured view of the market and the economy, do, when combined with our marketposition and diversified blue-chip customer base, give management increasing confidence in the medium to long-term potential for the business to outperform.

Environmental leadership

In 2008 we established our goal to be the world leader in low environmental impact set-top boxes and set a standard for our industry.

Product development is where we have the greatest impact on the environment. The growing demand for our products, which increasingly include more advanced and power hungry applications, has made this an essential part of our strategy. We are targeting three key areas where set-top box products have the highest impact: power consumption, packaging and hazardous substances. We are addressing all three in our 'Design for Environment' criteria, now being used on all new product developments. We are working with our partners and customers to minimise energy demands through innovative product design so together we can significantly reduce the amount of power consumed worldwide.

Digital convergence

Five years ago the technology debate in the industry was centred on the "fight for the living room". The set-top box won against competition from the TV, games consoles and the PC. Today the battle is for control of the in-home entertainment network, and the set-top box is ideally positioned to win this battle as it won the last.

Therefore our second strategy theme is to put Pace at the heart of convergence in the digital home, enabling our customers to deliver whole home networking strategies. In the triple-play convergence model it is relatively easy to move data and voice around the home, but very few companies have the technological capability to add networked encrypted TV to create a whole home solution. We are working on wired and wireless solutions that will combine the best of PVR and high definition and enable consumers to watch their favourite content, wherever they are in the home. Our technology teams are at the forefront of this work and will continue to create opportunities for Pace.

As with any other innovation in this market digital convergence will be led by the payTV operator and its delivery into the home will evolve through the set-top box. Not all homes will demand this level of sophistication, but the market will create new opportunities for Pace, alongside the mass market for PVR and high definition products and the inevitable introduction of 3-D payTV.

In the immediate short-term we are working with customers on what have been termed 'hybrid' boxes to combine the benefits of delivery technology such as satellite with broadband IP. There has been much discussion on how broadband will overtake broadcast, but the economics for broadband mass market TV is still some way away. Hybrid products combine the worlds of broadcast and broadband, delivering an even richer service to consumers. Last year we were delighted to work with Canal+ on Le Cube, Europe's first Satellite/IP hybrid set-top box to use the ethernet port for VOD services.

Pace's MultiDweller™, which opens up a new market for Pace in the infrastructure sector for higher value, higher margin equipment, is now moving into commercial deployment with its first operator customer. The product makes it possible for payTV and other entertainment operators to sell their convergent triple play services in places such as apartment blocks and hotels that are today difficult and expensive to access. In Europe alone, over 50% of households are in multi-dwelling units. Pace engineers have been working on MultiDweller™ for over three years and this product includes our own silicon design. To date we have taken a cautious approach to the potential impact this new line of business may have, but as commercial deployments are closer our confidence in the product and its market is growing.

As CEO of Pace I have had the pleasure of working in this amazing industry for over 15 years and have heard commentators and potential technology competitors predict the demise of the set-top box. Common theories have been that the set-top box will be built into the TV or that disruptive technologies such as broadband will make the set-top box redundant. This hasn't happened, and won't happen, because the set-top box is the most effective platform for innovation, making it possible for consumers to benefit from developments in technology via an accessible and easy to use device. For the operator a box is the most convenient, fast and flexible platform for the provision of a payTV service. Finally and most importantly the set-top box contains the security to protect operator content in the home, its most valuable asset.

Outlook

As we enter 2009, Pace is in a strong position to capture new opportunities in the global shift to digital TV. We have seen little impact on demand for our products but we do continue to take a prudent and cautious view of the market, in particular, monitoring trends for any impact of the global economic climate. However, due to new business wins, customary good order visibility, foreign exchange management and global operational synergies, we are now able to significantly raise expectations for Pace's 2009 performance and pay a dividend.

Neil Gaydon
Chief Executive Officer

3 March 2009

CHIEF FINANCIAL OFFICER'S REVIEW

Stuart Hall

In 2008 we delivered an excellent set of results during a complex reporting period.

Our financial statements were transformed through the successful acquisition of Pace France and we achieved new records in the level of our revenues and shipments, with strong profit contribution from the organic Pace business and Pace France.

Trading and results

Our overall 2008 results include eight and half months of Pace France reporting, with the prior period comparisons for the previous seven month reporting period as we moved our reporting year-end.

We achieved record growth in revenues and shipments of £745.5m and 13.1m set-top boxes respectively and significantly increased profit before tax, exceptional items and amortisation of other intangibles to £28.5m (seven months ended 31 December 2007: £15.4m). Profit before tax was £13.8m (seven months ended 31 December 2007: £15.4m). Amortisation of other intangibles was £3.7m (seven months ended 31 December 2007 £nil). Organic revenues increased to £452.6m and profit before tax, amortisation of other intangibles and exceptionals to £20.1m with Pace France contributing revenues of £292.9m and profit before tax, amortization of other intangibles and exceptional items of £8.4m (for the period 21 April to 31 December 2008).

Following the Pace France acquisition we now operate from three main geographic bases; UK, France and the Americas. Each team has continued to win new customers and expand market share with many of their existing payTV operator customers, enabling us to maintain a balance of revenues from a wide range of customers around the world. Geographically, we delivered 4.7m set-top boxes into the EMEA region (seven months ended 31 December 2007: 1.3m), 1.1m into APAC (seven months ended 31 December 2007: 0.2m) and 7.3m into the Americas (seven months ended 31 December 2007: 0.9m).

As anticipated our gross margin moved to 18.1% from 20.3%, due to a changing mix of high and low specification products, where average selling prices moved from £102 to £57, and includes some impact from products acquired through Pace France. We are now setting return on sales (ROS) targets for overall company performance as this measure reflects the benefit of volume impact rather than just margin and all new product launches must pass an internally defined ROS benchmark before moving into development.

The interest charge was £0.7m (seven months ended 31 December 2007: £0.5m) reflecting a net borrowings position during part of the period. A tax charge of £2.8m (seven months ended 31 December 2007: tax charge £0.9m) relates to overseas tax charges of £2.9m and a deferred tax credit of £0.1m. From 2009 onwards, we expect the tax charge to return to a more normal tax rate. Retained profit for the period was £11.1m (seven months ended 31 December 2007: £14.4m).

Pace France

We acquired Pace France from Royal Philips Electronics on 21 April 2008 for a consideration of £65.6m. The team made excellent progress in the integration programme and this business became profitable within three months, ahead of schedule. We are now experiencing the expected additional benefits of the acquisition through scale of the new business and associated cost savings, which we will continue to build on. A series of operational efficiencies has been delivered, helping to bring together the two businesses to function efficiently and save significant costs for the whole Group. These include consolidating the supply chain, which has reduced management complexity and increased economies of scale. The volume of components we purchase has brought its own immediate impact in terms of price and negotiation, and in addition the diversity of components between the two businesses has been reduced to drive further purchasing economies of scale and reduce bill of material maintenance.

Foreign Exchange

Following the Pace France acquisition, by currency our revenues were broadly equal in US$ and, Euros with other currencies accounting for 40%. The majority of the Group's costs are dollar denominated reflecting electronics component purchasing which has traditionally been US$ denominated. In Q4 2008 we experienced significant volatility in foreign exchange rates, which whilst having minimal impact in 2008, did impact the outlook at that time for 2009. We reacted quickly to minimise this issue, enhancing the Group's foreign exchange policy and de-risking its foreign exchange exposure through a review of costs, projects and expenditure, as well as working with the value chain to better align the balance of exposure between purchases and sales in different currencies. As a result, around three quarters of expected 2009 revenues are now hedged and managed to match foreign exchange exposures.

Overheads

Overheads, which include Pace France and excluding the impact of IAS38, amortisation of other intangibles and exceptionals, were £105.1m (seven months ended 31 December 2007: £37.2m). R&D spend before capitalisation of development expenditure in line with IAS38 was £59.6m (seven months ended 31 December 2007: £21.5m) as we continued to invest in higher specification products such as HD PVR and new technologies and incorporated the overhead base from Pace France. An amortisation charge in relation to capitalised development expenditure of £0.9m (seven months ended 31 December 2007: credit £2.2m) is reflected in the income statement.

Exceptionals

There was an exceptional charge of £11.0m, which includes the previously advised £2m cost of the Pace France integration programme, a £4.2m cost for the planned closure of an existing Pace office in Grenoble and for costs due to synergies identified in the newly enlarged Pace business. These exceptional costs will deliver future ongoing savings.

Cash flow, balance sheet and banking

The Group finished the period with a net cash position of £37.7m (31 December 2007: net borrowings £12.1m). We secured a new £35m revolving credit facility with the Royal Bank of Scotland.

The balance sheet at 31 December 2008 reflects the impact of the assets and liabilities relating to the acquisition of Pace France. The main working capital items acquired at 21 April 2008 consisted of inventories of £9.4m, trade and other receivables of £61.6m and trade and other payables of £71.7m.

Dividend

Following this strong performance the Board is delighted to announce the initiation of a dividend, the first such payment to shareholders of a full year dividend of 0.6p per share. Going forward the Board intends to pursue a progressive dividend policy paying in the region of a one third, two thirds split between interim and final dividends.

Basis of preparation

The principal risks and uncertainties facing the Group, including those referred to in note 1 to these financial statements, have not changed from those set out in the 2007 Annual Report and Accounts.

In 2008 we closed the year having generated a net cash inflow of £50m and we have a globally diversified customer base, which has improved our quality of earnings. Both factors enhance our position as we work through 2009. At the same time we will continue to keep a close watch on our markets and suppliers for signs of any macro economic impact on our 2009 deliverables as we continue our work as one of the world's leading developers of digital set-top box technology.

Stuart Hall
Chief Financial Officer

3 March 2009

The directors present their report to shareholders on pages 9 to 19 together with the audited financial statements for the year ("year") ended 31 December 2008 (prior financial period 7 months ended 31 December 2007).

PRINCIPAL ACTIVITIES

The Group's principal activities are the development, design and distribution of digital receivers and receiver decoders for the reception of digital television and the reception/transmission of interactive services, telephony and high-speed data. The Group also provides engineering design, support services and software applications to its set-top box customers. Each of these services may be delivered over satellite, cable, terrestrial and IP network transmission systems.

BUSINESS AND FINANCIAL RESULTS

The information that fulfils the requirements of the Business Review and Management Report, including a review of the Group's activities, developments and the financial results for the year, and the key financial performance indicators relevant to the business of the Company (principally revenue, gross margin %, profit before tax and cash), can be found in the Chief Executive Officer's Review and the Chief Financial Officer's Review on pages 4 to 8. The aforementioned information is incorporated in this report by reference. There is no information which falls to be disclosed pursuant to s. 417 (5) (c) of the Companies Act 2006.

RISKS AND UNCERTAINTIES

The following are the key risks and uncertainties relevant to the business of the Group:

Customers and Markets

Orders placed by the Group's payTV customers are typically large one-off orders for delivery over a number of months with supplemental orders for additional volumes. As the eventual deployment of the set-top boxes can be unpredictable, revenues can be volatile. The difficulty in predicting the Group's business flow and its risks can be exacerbated by a number of other factors including, for example, the development process for an advanced set-top box, which can take over 12 months. The Group works on long lead times (eg four months or more) for component supply and manufacture, typical of the Industry. In the US market, in particular, customers' firm order lead times may be less than the component lead times. There are third party delivery risks, for example, difficulties in the delivery of components or software code, and the final go ahead for manufacture and firm contractual commitments is usually dependent on product approvals and acceptance both from the operator and sometimes from third parties. The Group is also exposed to the industry wide inherent risk of supply chain failure. The Group has put in place procedures to monitor the financial and operating strength of key suppliers. In addition, it utilises dual or multi source where appropriate to mitigate this risk.

Product Liability Claims

In common with many companies in the Industry, the Group is exposed to the risk of product liability claims made by customers or affected third parties, should the Group's products not fulfil the terms of the contracts under which they are sold. The Group has in place quality control and other operational procedures to mitigate this risk.

Credit Risk

The central Finance function of the Group obtains reports from third party sources in respect of the credit worthiness of key customers and suppliers and sets individual credit limits as appropriate. A credit insurance policy is maintained, which provides cover over certain debtors, subject to excesses, and the exposure to credit risk is monitored on an ongoing basis. Deposit investments are generally undertaken only in liquid securities and with counterparties that have appropriate credit ratings.

Royalties

The Group's products incorporate third party technology, usually under licence. Inadvertent actions may expose the Group to the risk of infringing third party intellectual property rights. Potential claims can be submitted many years after a product has been deployed.

Regulatory

The Group remains exposed to changes in the regulatory environment, including potential modifications to import duty regimes, and legislation relevant to the Group's products.

Currency Risks

The standard 'industry currency' is the US dollar, with the majority of components and manufacturing capacity purchased in this currency. However, due to part of the Group's revenues being in Sterling and Euros, the Group is exposed to the risk of foreign currency movements. To manage this risk, the Group's treasury policy is progressively to cover cash flows when these are sufficiently certain and to seek price variations through contractual mechanisms where significant currency movements occur.

Interest Rate Risk

The Group's policy is to review regularly the terms of its available short term borrowing facilities and available cash balances and it manages its borrowing commitments accordingly. The Group does not currently take out any interest rate swaps.

FINANCIAL RESULTS

The consolidated income statement for the year is set out on page 32. The profit before tax was £13.8m (7 months ended 31 December 2007: £15.4m) and the profit before tax, exceptional items and amortisation of other intangibles was £28.5 million (7 months ended 31 December 2007: £15.4 million).

DIVIDEND

The directors recommend the payment of a final dividend of 0.6p per ordinary share (7 months ended 31 December 2007: nil) to be paid on 3 July 2009 to shareholders on the register at the close of business on 5 June 2009. No interim dividend was paid during the year.

SHARE CAPITAL

Changes in the Company's share capital during the year are set out in note 19 to the financial statements.

SIGNIFICANT SHAREHOLDINGS

The Company has been notified of the following significant shareholdings as at 2 March 2009.

	Number of shares	% of issued share capital
Koninklijke Philips Electronics N.V.	50,701,049	16.96
David Hood and related family trusts	44,486,957	14.88
Gartmore Investment Management	24,788,595	8.29
UBS AG	15,000,410	5.02
Barclays Investors	11,736,882	3.93
Pace Micro Technology Employee Benefit Trust	11,615,707	3.88
Legal & General Group plc	11,483,528	3.84

DIRECTORS

The names of the current directors of the Company are shown below. Other than as described all those listed held office throughout the period.

Mike McTighe

Mike was appointed a Non-executive Director in June 2001 and became Chairman on 1 May 2006. He is currently Chairman of Volex Group plc, a member of the board of Ofcom and Chairman of a number of private equity-backed companies. Previously he was Chairman & CEO of Carrier1 International SA, and before that Executive Director & Chief Executive, Global Operations of Cable & Wireless plc. Prior to these experiences, Mike spent 5 years with Philips, 5 years with Motorola, and 10 years with GE.

Neil Gaydon

Neil was appointed Chief Executive Officer in April 2006. He was appointed to the Board in June 2002 as Worldwide Sales and Marketing Director. He has been with the Company since 1995 and as President, Pace Americas spearheaded the development of the Company's US business between 1999 and December 2003. Prior to this he was Regional Sales Director EMEA and head of New Business Development and Product Marketing for the Company. He is a board member of Bradford City of Film.

Pat Chapman-Pincher

Pat was appointed a Non-executive Director in February 2005 and became Senior Independent Director in May 2006. She has over 30 years' experience in the communications industry from senior roles in multinational Internet and telecoms companies to participating in technology company start-ups. A founding partner of the Cavell Group, which specialises in operational consultancy IP and wireless technologies, she is a non-executive director of Stepstone ASA, Omniplug Ltd. a non-executive director of Friends of the Earth, and of Groundwork East London. Pat is also a member of the Advisory Board of Bradford School of Management.

John Grant

John was appointed a Non-executive Director on 1 August 2008. John has spent his executive career in a variety of senior international roles within the automotive industry and other engineering businesses. In 2000 John led a successful management buy-out of four specialist engineering businesses from Ascot Plc to form Hasgo Group Ltd and Peter Stubs Ltd. Prior to that, he was Chief Executive of Ascot Plc between 1997 and 2000. John also worked as Group Finance Director for Lucas Industries Plc (subsequently Lucas Varity Plc) between 1992 and 1996 and held a number of senior positions within Ford Motor Company in Europe and the USA. John is Non-Executive Chairman of Hasgo Group Limited and Torotrak Plc, and Non-Executive Director of Melrose Plc, MHP S.A. and Royal Automobile Club Ltd.

Stuart Hall

Stuart was appointed Chief Financial Officer and joined the Board in April 2007. Before joining the Company he was Group Finance Director of IQE plc and prior to that Finance Director of Energis Squared Limited and Director of Performance Management for Energis Goup plc. He has also been Finance Director at WBF Ltd, part of the Adare Printing Group plc, Carnography plc and Race Electronics. He qualified as a Chartered Accountant with BDO Binder Hamlyn.

Mike Inglis

Mike was appointed a Non-executive Director on 25 July 2008. He is currently EVP and General Manager of the Processor Division of ARM Holdings having previously been EVP, Sales and Marketing. Before joining ARM, he worked in management consultancy with A.T. Kearney and held a number of senior operational and marketing positions at Motorola. He previously worked in semiconductor sales, marketing, design and consultancy with Texas Instruments, Fairchild and BIS Macintosh and gained his initial industrial experience with GEC Telecommunications. He is a chartered engineer and a Member of the Chartered Institute of Marketing.

David McKinney

David was appointed Chief Operating Officer in April 2006 and joined the Board in October 2006. He has been with the Company since November 2005, joining as Director of Engineering and Operations with responsibility for operations, engineering, test and quality strategy. Previously David held a number of senior management and operational roles in technology and telecoms companies including Motorola and Philips.

During the year the following persons also held office as directors: Robert Fleming: retired 30 September 2008; Marten Fraser: retired 31 December 2008.

Stuart Hall and David McKinney will retire by rotation at the Annual General Meeting of the Company and offer themselves for re-election. John Grant and Mike Inglis, having been appointed by the Board subsequent to the date of the last Annual General Meeting, will hold office until the forthcoming Annual General Meeting and will then offer themselves for election at that meeting. Details of the executive directors' service contracts and the non-executive directors' letters of appointment are disclosed on pages 23 and 24.

PAYMENT TO SUPPLIERS

It is the policy of the Group to agree terms and conditions for its business transactions with suppliers, which are varied from time to time. Payment is made in accordance with those terms, subject to the other terms and conditions being met by the supplier. The Group does not follow any code or standard on payment practice. Creditor days at the end of the period for the Group were 63 days (31 December 2007: 64 days) and for the Company were 63 days (31 December 2007: 64 days).

RESEARCH AND DEVELOPMENT

The directors regard it as fundamental to the future success of the Group to engage in a substantial ongoing programme of research and development of new products, spending £59.6 million in the year (7 months ended 31 December 2007: £21.5m) and charging £60.5 million (7 months ended 31 December 2007: £19.3m) to the income statement during the year following the treatment under IAS38.

DONATIONS

During the period the Group donated £40,000 (7 months ended 31 December 2007: £25,000) to charitable causes. No political donations were made. Further details of the charitable and community-related activities of the Group are given on page 16.

CORPORATE GOVERNANCE

The directors believe that, save in respect of the performance evaluation of the Board and its committees as indicated below, the Company has complied throughout the period with the Combined Code on Corporate Governance, as revised and adopted by the Financial Reporting Council. The Board confirms that it has established the necessary procedures designed to maintain a sound system of internal control and that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

BOARD OF DIRECTORS

The Group is controlled through the Board of Directors, which comprises three executive and four non-executive directors who bring a wide range of skills and experience to the Board. Biographical details of all directors are to be found on pages 11 and 12. The Chairman, Mike McTighe, is mainly responsible for the running of the Board ensuring, together with the Company Secretary, that it receives timely and clear information appropriate to enable it to discharge its duties. The responsibilities of the Chief Executive Officer, Neil Gaydon, focus on running the Group's business and implementing Group strategy. The Chief Executive Officer is assisted in managing the business on a day-to-day basis by the Executive Committee as further described below. All the non-executive directors are deemed by the Board to be independent. In addition, the Board has designated Pat Chapman-Pincher as the Senior Independent Director. All directors have access to the advice and services of the Company Secretary and are able to take independent professional advice at the Company's expense in the furtherance of their duties, if necessary. All directors, in accordance with the Combined Code, submit themselves for re-election at least once every three years. New directors receive a programme of tailored induction on joining the Board and all directors are offered the opportunity to continually update their skills and knowledge by attending external training events.

The Board has a formal schedule of matters specifically reserved to it and normally meets at least nine times each year. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of the Group and conducts formal strategy reviews together with other senior executives within the Group at least once a year. The Chairman holds meetings with the non-executive directors without the executive directors being present at least twice during the year.

It is the policy of the Board to undertake a formal review and evaluation of its performance including the performance of its committees and individual directors on an annual basis. This is conducted by written feedback in standardised form from each director to the Chairman or the Senior Independent Director in the case of appraisal of the Chairman.

BOARD COMMITTEES

The Board has established the following committees, each of which has written terms of reference specifying its authority and duties and copies of which are publicly available on the Company's website: www.pace.com.

The Audit Committee is comprised of independent designated non-executive directors, Pat Chapman-Pincher and John Grant, who is the Chairman of the Committee. Marten Fraser served on and was Chairman of the Committee before resigning in December 2008. The Committee has primary responsibility for making recommendations on the appointment, reappointment or removal of the auditors and receives and reviews reports from management and from the auditors relating to the interim and annual accounts and the control systems in use throughout the Group. Meetings are held by the Committee with the auditors without executive management being present at least once a year and the Committee reviews arrangements by which staff may, in confidence, raise concerns about possible improprieties, including review of the Group whistleblowing policy.

The Executive Committee is chaired by Neil Gaydon as Chief Executive Officer. The Committee generally meets once a month and ensures that the strategy, plans and policies previously agreed or delegated by the Board are implemented.

The Executive Committee comprises the three executive directors together with the following senior executives:

Anthony Dixon	General Counsel
Jill Ezard	Director of Human Resources
Mathias Hautefort	President, Pace France
Helen Kettleborough	Director of Corporate Communications
Michael Pulli	President, Pace Americas
Richard Slee	President, Pace UK

The Remuneration Committee is comprised of Mike McTighe and independent designated non-executive directors John Grant and Pat Chapman-Pincher, who is the Chairman of the Committee. Marten Fraser served on the Committee before resigning in December 2008. The Committee is responsible for setting the remuneration of the executive directors and other members of the Executive Committee including making recommendations regarding the grant of share options. The members of the Committee have no personal interest, other than as shareholders, in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in the running of the business.

The Nominations Committee is comprised of non-executive directors Pat Chapman-Pincher, John Grant and Mike Inglis, together with Chief Executive Officer, Neil Gaydon, and is chaired by Mike McTighe. Its purpose is to consider and make recommendations to the Board regarding the appointment of new directors.

BOARD AND COMMITTEE MEETINGS ATTENDANCE

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Total Meetings	9	4	5	1
Pat Chapman-Pincher	9	4	5	1
Robert Fleming	6	-	-	1
Marten Fraser	9	4	4	1
Neil Gaydon	9	-	-	1
John Grant*	3	1	1	-
Stuart Hall	8	-	-	-
Mike Inglis*	3	-	-	-
David McKinney	8	-	-	-
Mike McTighe	7	-	4	1

*director appointed during the year

DIRECTORS' REMUNERATION

The Remuneration Committee reviews the performance of the executive directors and other members of the Executive Committee as a prelude to recommending their annual remuneration, bonus awards and award of share options to the Board for final determination. The final determinations are made by the Board as a whole but no director plays a part in any discussions concerning their own remuneration.

The Remuneration Report of the Directors to shareholders is set out on pages 20 to 28 and includes the remuneration policy of the Company and details of directors' incentive payments and the related performance criteria.

AUTHORITY TO PURCHASE OWN SHARES

At the Annual General Meeting in 2008 the Company was authorised by shareholders to purchase up to 23,371,758 of its own ordinary shares, representing 10 per cent of its issued share capital as at February 2008. The Company did not utilise this authority during the year. The authority for the Company to purchase its own shares expires at the conclusion of the Annual General Meeting in 2009 and a resolution to renew it will be proposed at that meeting.

ACCOUNTABILITY AND AUDIT

A detailed review of the performance of the Group's business is contained in the Chief Executive Officer's Review and the Chief Financial Officer's Review. These statements, together with the Letter from the Chairman and the Report of the Directors, are intended to present a balanced assessment of the Group's position and prospects. The directors' responsibility for the financial statements is described on page 29 and the responsibilities of the auditors are described on page 30.

INTERNAL CONTROLS

Overall responsibility for the Group's system of internal control rests with the Board of Directors. The Board has delegated certain of its powers to the Audit Committee to review the effectiveness of the systems of control and to receive reports from the auditors and from the management relating to the interim and annual accounts and the control systems in use throughout the Group.

During the year and up to the date of this report, the Board carried out reviews of the effectiveness of the Group's internal controls. The reviews were undertaken in accordance with the Financial Reporting Council's guidance under the following headings and were aimed at clearly identifying the systems already in place and the action plans necessary to improve areas of control weakness.

The control environment Subject to those powers and limits of authority reserved by the Board, and to the Group policies and guidelines they have established, the conduct of the business of the Group is delegated within a clearly defined organisational structure and approved level of authority. The Board has also adopted a Code of Business Ethics, which has been incorporated into the Employee Handbook issued to all employees.

Risk assessment The directors and senior managers are responsible for identifying and monitoring sources of potential business risk and financial risk, and for taking such preventative and protective actions as they consider necessary to manage such risks effectively. During the year a risk assessment review of the Group's business has been conducted in conjunction with the Executive Committee. The Board has received and considered this review as part of an annual risk and control assessment.

The Group's systems are designed to identify and manage rather than eliminate significant business risks, including the risk of failure to achieve business objectives and can only provide reasonable not absolute assurance against material misstatement or loss. Business risks are identified, evaluated and managed through functional line management reporting to divisional meetings, Executive Committee meetings and Board meetings as appropriate. Each member of the Executive Committee is required to highlight and report on any significant business risks identified within their sphere of responsibility.

The key business risks associated with the timely completion of long-term development projects and on-going business risks, including alleged infringement of third party intellectual property rights, are managed by cross-functional teams of senior employees. Business continuity plans addressing physical risks to the Group's development sites are reviewed and updated at least annually. The Group has adopted Customer Account Teams (CATs) so as to focus the business on customer needs. The senior managers within the CATs also monitor the financial and business risks, including competitor risks, associated with the delivery of agreed plans, reviewing such matters at Business Review Meetings held on a regular basis and attended by members of the Executive Committee.

Financial control and information systems The Group's strategic direction is reviewed regularly by the Board and plans, budgets and performance targets are reviewed and approved at least annually. Directors receive monthly summaries of financial results which compare actual performance with targets, together with detailed management reports that identify the reasons for variances and the progress achieved. Business planning documents are revised on a regular basis in line with actual and expected performance.

Control procedures Financial control procedures have been developed for all of the main business functions and have been documented in a procedures manual. Authorisation limits for purchases and capital expenditure are specified and procedures are in place for minimising exposure to potential weaknesses in the receipt, handling and despatch of goods. The Group's main premises have received accreditation for BSI ISO 9001: 2000.

Monitoring systems Monitoring of the internal control systems is carried out by the centralised Group Finance Function.

The Audit Committee considers annually whether there is a need to appoint a dedicated internal auditor and during the year determined that, having regard to the size of the Group and the control and monitoring systems referred to above, there was no current business requirement for such an appointment. In respect of 2009 the Committee has recommended that the Group implements a series of internal audits utilising external consultant resources.

Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the directors with reasonable assurance that transactions are authorised and completely and accurately recorded, that assets are safeguarded and that material errors, irregularities and actions contrary to Group policies and directions are either prevented or promptly discovered.

GOING CONCERN

The directors, having taken account of the Group's available bank facilities and cash resources and having reviewed the Group's budget and forecasts for the period to 31 March 2010, consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

CORPORATE SOCIAL RESPONSIBILITY

EMPLOYMENT POLICIES

The directors recognise the importance of the Group's employees to its success and future development and are committed to providing an environment that will attract, motivate and reward high quality employees. The Group continues to invest in a range of internal and external initiatives to promote employee development. This commitment has been acknowledged by Investors in People (IIP) recognition.

Employees are kept informed of matters affecting them as employees and factors affecting the performance of the Group through monthly employee meetings/briefings and a Company newsletter, "Pacesetter". In the UK, meetings of the Employee Partnership, an elected forum for the discussion of work related issues, are held with members of the Executive Committee at least four times per year.

The Group welcomes applications for employment from all sectors of the community and is striving to promote equality of opportunity in employment regardless of age, sex, sexual orientation, disability or ethnic origin. It is the Group's policy that training, career development and promotion opportunities should be available to all employees. In the event that an employee becomes disabled, the Group makes reasonable adjustments where any aspect of premises or working practices puts such a disabled employee at a substantial disadvantage compared with a non-disabled employee.

HEALTH AND SAFETY

The Group has an established Health and Safety Committee made up of health and safety representatives, the health and safety officer and other persons with expert knowledge who review health and safety issues relevant to the Group's business. Other safety-related committees also conduct periodic reviews of specific work practices. These actions complement the Health and Safety Executive's "Working Well Together" initiatives adopted and implemented by the Company.

In the UK the health and safety adviser continues to carry on ergonomic risk assessments and developing ergonomic strategies whilst safety representatives and fire wardens conduct site inspections. These activities along with others contribute to the further advancement of local workplace health and safety awareness and improvement. Generic and detailed risk assessments, chemical assessments and safe systems of work guidance are maintained for the benefit of employees on the Company's Intranet site.

The importance of ongoing health and safety awareness training for managers and safety representatives is recognised. As part of this process a number of health and safety "tool-box talks" have been designed to replace the IOSH Managing Safely courses previously provided.

The number of UK workplace accidents during the year was 15 and, as in previous years, none of these were reportable under RIDDOR. A report concerning health and safety aspects of the Group's business and copies of specific Group safety policy documents can be obtained from the Company Secretary.

CHARITABLE AND COMMUNITY SUPPORT

The Group has an established Charitable Donations Committee comprising employees based at the Group's premises in the UK, the USA and France. The committee, which meets once a month, considers all requests for charitable and community project assistance within a financial budget and criteria approved by the Board on an annual basis.

The Group's support through the committee is focused on the local geographical area of Pace's premises in Saltaire, Paris and Boca Raton in Florida, as well as the charitable and community initiatives of Group employees. The corporate charity policy focus is to support local charities of benefit to the local area and people living close to each Group site.

During the year 126 requests for support were considered by the committee, 108 of these satisfying the criteria and receiving financial support amounting to £40,000. The participation of employees of the Group in community and charitable activities outside work hours has been encouraged by the provision of funds to match individual sponsorship raised.

ENVIRONMENTAL MANAGEMENT

The Company has maintained certification to the international management standard ISO 14001 at its Saltaire, and Florida sites and the Group Environmental Policy has been applied to all Pace sites worldwide. The Company is a signatory to the European Code of Conduct on Energy Efficiency of Digital TV Service Systems (EU Code of Conduct), ENERGY STAR Program Requirements for Set-top Boxes and MEPS (Minimum Energy Performance Standard). Pace is committed to ensure that products are designed to minimise energy consumption.

The Company continues to monitor its environmental activities/impacts, details of which are available from the Company Secretary, or the Company's website.

This year saw the Company develop an executive driven strategy to improve its environmental performance. The strategy focuses on three core areas: Site Operations, Product and Supply Chain environmental improvements.

Pace is also targeting the three key areas where its products have the highest environmental impact. These are:

1) **Power consumption** – the hardware design of every Pace product from this point onwards will comply with or exceed the EU Code of Conduct, EnergyStar and MEPS guidelines . In regions where no guidelines exist, Pace will apply the closest guidelines to these areas. Pace will work with its key partners to drive compliance across all aspects of the final product, including software.

2) **Packaging** – all materials used in the packaging of Pace products will be 100% recyclable. Pace is setting a minimum standard of 50% of all materials used in packaging to be sourced from recycled materials.

3) **Hazardous substances** – Pace is going beyond current legislation with its own extensive 'Restricted Substances' list. Pace will phase out these additional potentially hazardous substances from all future products going forwards.

During the year the Company set environmental targets and achieved the following outcomes in respect of its chosen measures of environmental impact:

ACTIVITY/IMPACT	OBJECTIVE	TARGET	STATUS	COMMENT
Pace Environmental strategy	Develop a supply chain based strategy for environmental performance improvement	Engage all of our priority suppliers by Dec 2008	Ongoing	Roll out in 2009
Set-top box (STB) Power consumption	Develop 'design for environment' criteria for inclusion in the product creation process	Developed and implemented by March 2008	Complete	Design for environment incorporated in the Pace Product Creation Process (PCP)
STB environmental impact	Minimise STB energy consumption	Design and develop a low environmental impact (LEI) STB by Dec 2008	Complete	Demonstrated at IBC'08
Reduction of STB power consumption	Minimise power consumption of the STB to align with EU code of conduct	75% of products destined for EU market EU Code of Conduct compliant	Ongoing	Results will be published in 2009
Electricity Use	Minimise site energy use wherever technically and commercially practical	Introduce individual lab electrical consumption mechanism by March 2008	Complete	Individual lab mechanisms in place and access available to all Pace employees
Volunteer activity	Improve local environment	Conduct one Volunteer activity	Complete	Completed in association with Forest of Bradford
Employee Awareness	Increase employee awareness	Implement an awareness programme focusing on individual employee energy consumption by July 2008	Complete	Engagement activity complete
IT Equipment	Reduce the IT server equipment Energy consumption	Implement a server virtualisation strategy with a view to reducing IT power consumption by June'08.	Complete	Servers in place

The Company commissioned its eighth independent Environmental Report prepared by consultants, Atkins plc. A copy of the Group's Environmental Policy Statement and the Environmental Report for the year can be obtained from the Company Secretary and is available on the Company's website: www.pace.com

AUDITORS

KPMG Audit Plc held office as auditors during the year. A resolution for the re-appointment of KPMG Audit Plc will be proposed at the forthcoming Annual General Meeting.

The Audit Committee reviews the independence and objectivity of the auditors, considering whether, taken as a whole, the various relationships (if any) between the Group and the auditors impairs, or appears to impair, the auditors' judgement or independence.

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

RELATIONS WITH SHAREHOLDERS

The Board has continued to establish and maintain relationships with institutional shareholders and communicates with investors through the Group's web site (www.pace.com). A programme of meetings with institutional shareholders is in place (at which institutional shareholders are offered the opportunity to meet with non-executive directors) and analyst presentations are made following announcement of the interim and annual results. Shareholders are welcome to participate at the Annual General Meeting at which the Board will be available for questions.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 22 April 2009 at the offices of the Company at Salts Mill, Victoria Road, Saltaire, West Yorkshire, BD18 3LF. Full details of the business to be transacted at the meeting will be set out in the Notice of Annual General Meeting.

RESPONSIBILITY STATEMENT OF THE DIRECTORS

The directors whose names appear on pages 11 and 12 confirm that to the best of their knowledge:

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

By order of the Board

Anthony J Dixon
Company Secretary

3 March 2009

The directors present their report to shareholders on pages 20 to 28 regarding remuneration matters in respect of the year ended 31 December 2008.

REMUNERATION COMMITTEE

The Remuneration Committee (the Committee) is responsible for setting the individual remuneration of the executive directors and other members of the Executive Committee within the framework of the remuneration policy described below, which is set by the Board.

The Directors who were members of the Committee at any time during the year ending 31 December 2008 were Pat Chapman-Pincher (Chairman of the Committee), Marten Fraser (who resigned on 31 December 2008), Mike McTighe and John Grant (who was appointed in August 2008). For guidance, the Committee makes use of surveys of executive pay and knowledge of market rates. The CEO and Director of HR also attended Remuneration Committee meetings during the year by invitation and provided advice to the Committee to enable it to reach informed decisions. No director was present when their remuneration was being discussed. The Committee was assisted in its consideration of remuneration matters by New Bridge Street Consultants, who were sole remuneration advisors prior to September 2008 and Kepler Associates, who were appointed as sole remuneration advisers in September 2008. Kepler Associates assisted the Committee in its 2008 review of the Company's executive remuneration policy and consultation with significant shareholders. New Bridge Street Consultants and Kepler Associates provided no other services to the Group in the year. Pinsent Masons, legal advisers to the Company, also advised the Committee regarding certain share option related issues.

REMUNERATION POLICY

The Board believes that it is necessary to ensure that the remuneration packages of the executive directors remain competitive in order to attract, retain and motivate executive directors and senior managers of a high calibre and to reward them for performance. The policy is for a significant proportion of executive directors' total remuneration to be capable of being earned from variable, performance-based incentives, through annual bonuses and share based incentives. The objective of this policy is to provide rewards and incentives that reflect corporate and individual performance and align management's objectives directly with those of the Shareholders. Around half of an executive director's remuneration is variable and is linked to corporate performance.

The Board's policy in relation to non-executive directors continues to be to pay fees that are competitive with the fees paid by comparable quoted companies. Non-executive directors' fees are determined by the Board as a whole within the limits set out in the Company's Articles of Association. Non-executive directors are not eligible for performance bonuses or pension contributions and do not participate in the share option schemes. Non-executive remuneration is generally reviewed annually and such a review took place in October 2008.

SALARY

Basic salary for each executive director is determined by the Committee, taking into account the performance of the individual and information from independent sources on external market salary levels for comparable jobs with a view to salaries being set around the median level for comparable companies. In setting senior executives' salaries, the Committee also takes into account pay and employment conditions in the Group as a whole. Salary is generally reviewed around the time of commencement of each financial year and such a review took place in January 2008. The Committee sought advice from remuneration consultants with regard to the salary review and took into account the enlarged size of the Group following the acquisition of the Philips set-top box and connectivity solutions business. A further review of salary took place in January 2009 and as a result 2009 salaries of members of the Executive Committee (including executive directors) have been frozen at 2008 levels.

PERFORMANCE BONUS

The Company established a non-pensionable performance-related bonus plan for the executive directors and other key members of management for the year ended 31 December 2008, which was based on the successful achievement of corporate and individual objectives. The corporate objectives were linked to the the key drivers of value creation for shareholders and the key measure therefore was the profitability of the Group for the full financial year. Achievement of the 2008 bonus was dependent on the Group's pre-tax profits (before certain exceptional items) exceeding £17 million with the capacity to earn additional bonus increments upon achievement of higher profit targets up to a ceiling of £25 million. In addition, a number of individual personal objectives were set for each director and manager, which were aligned with the objectives of the Group for the year. The maximum bonus achievable by the executive directors in the event that all corporate and individual targets were met was 150% of basic annual salary with one third of any bonus earned being deferred into shares in the Company for a period of two years under the Group Deferred Share Bonus Plan. The Committee having regard to the performance during the period, determined to award maximum bonus to each of the executive directors under the 2008 annual performance bonus.

In addition, during 2008 an additional one-off performance related bonus scheme for approximately 50 executives and managers (including the executive directors but excluding Neil Gaydon) was introduced to reward achievement of objectives linked to the integration of the Philips set-top box and connectivity solutions business. The maximum individual bonus opportunity awarded under this Special Integration Bonus Scheme was £25,000.

In respect of the 2009 financial year the Committee has reviewed the executive bonus structure with its remuneration advisers and whilst it proposes that the annual bonus will continue to be based primarily on the achievement of Group PBT, the Committee will retain discretion to reduce the bonus otherwise payable to executive directors by up to 20% based on their assessment of the executive directors' management of the Company's cash position during 2009. One third of any earned bonus will continue to be deferred into Pace shares under the Group Deferred Share Bonus Plan.

In addition whilst the normal ceiling for such bonus payments remains at 150% of annual salary, the Committee intends (subject to consultation with major Shareholders) to allow members of the Executive Committee (including executive directors) to have the opportunity to earn an "exceptional" bonus of up to 100% of annual salary, at the discretion of the Committee, payable only in the event of exceptional Group and individual performance which has secured the delivery of very significant benefit to shareholders. The Committee intends that such exceptional bonus would be earned only for performance significantly in excess of that already rewarded through the annual bonus and would normally expect the exceptional bonus (or a proportion there of) to be earned no more than once every three to five years. Any such exceptional bonus would be paid in its entirety in shares deferred for two years under the Group Deferred Share Bonus Plan and normally be subject to forfeiture if the executive leaves the Group.

PERFORMANCE SHARE PLAN

As a result of the review of remuneration referred to above, the Committee is proposing to introduce a new Performance Share Plan ("PSP") with all Group employees (including executive directors) eligible to participate. The introduction of the PSP is subject to the approval of shareholders at the 2009 Annual General Meeting on 22 April 2009 and material details of the terms of the PSP will be contained in a circular to shareholders accompanying the Notice of AGM.

BENEFITS IN KIND

Each executive director is entitled to benefits such as the provision of a fully expensed company car plus fuel (or cash alternative), private medical insurance, permanent health insurance, life insurance and where applicable relocation assistance.

PENSION CONTRIBUTIONS

In the year ending 31 December 2008, contributions were paid into the executive directors' pension schemes at rates determined by the Board. Contributions have continued to be paid during the current year at the rate of 15% of each director's basic salary. The Group does not operate any defined benefit schemes.

SHARE OPTION PLANS

The Board believes that share ownership encourages employees to contribute further towards improvements in the Group's performance. To this end, the following share option plans have been established by the Company.

A regular savings plan (the "Sharesave Plan"), which is open to executive directors and employees of the Group and under which options, granted at an initial discount of up to 20% against the quoted market price, are normally exercisable on completion of a three-year SAYE contract.

An HMRC Approved Discretionary Plan (the "Approved Pan") under which all employees, including full-time directors of the Company or any subsidiary, who do not have and have not had within the previous twelve months a material interest in the Company, are eligible to participate. Participation is at the discretion of the Board, acting in accordance with the recommendations of the Committee. Under the Approved Plan, options are granted at the prevailing quoted market price and may usually be exercised between three and ten years from the date of the grant. The maximum award of options to any employee pursuant to the Approved Plan is £30,000. The Company adopted its first Approved Plan in 1996 and a new Approved Plan at the AGM in September 2005.

An Unapproved Discretionary Plan ("Unapproved Plan"), which is similar to the Approved Plan, although certain rules of the Approved Plan are not included e.g. the exclusion of employees who have a material interest in the Company. The Company adopted its first Unapproved Plan in 1996 and a new Unapproved Plan at the AGM in September 2005. The maximum award of options under the Unapproved Plan to any employee in each year is 200% of salary or in exceptional circumstances as determined by the Committee 400% of salary.

A Discretionary Unapproved Scheme 2000 ("2000 Unapproved Scheme") which was discontinued in August 2005. Under the 2000 Unapproved Scheme options were granted at the prevailing quoted market price and become exercisable ("vest") as to 25% each anniversary after the grant over a four-year period. Under this scheme Basic Options were granted up to a limit such that unvested options may not exceed four times annual remuneration. For a category of up to 55 key employees there was the ability to award options ("Super Options") above the limit for Basic Options. Although the 2000 Unapproved Scheme has been discontinued outstanding options previously granted survive until exercise or lapse.

In granting options under the Approved Plans and the Unapproved Plans, the Board may include objective performance targets or other conditions as it thinks fit and has included such performance conditions based on growth in earnings per share (EPS) of 15-18% above the Retail Prices Index ("RPI") over a three-year period in all grants under the 1996 Approved Plan and 1996 Unapproved Plan prior to 2005. Under the 2000 Unapproved Scheme performance conditions of 6% per annum and 20% per annum compound above RPI were applied to the grant of Basic Options and Super Options respectively thereunder. Initial performance targets for the 2005 Approved and 2005 Unapproved Plans set in 2005 required a minimum growth in EPS of a compound 3% per annum above growth in inflation over a three year period at which level there is 25% vesting. Compound growth of 6% per annum above inflation is required for 100% vesting, with vesting on a sliding scale between these two target thresholds.

In setting targets for option grants during 2006, the Committee was mindful of the need for targets to reflect a return to profitability and significant improvements in earnings. Accordingly, during the financial year ending 2 June 2007 all options granted were subject to performance conditions based on growth in the pre-tax profits of the Group ("PBT") over a period of three financial years with 25% of options vesting at £6.9 million PBT in the third financial year and 100% of options vesting at £17.2 million PBT in the third financial year, with vesting on a sliding scale between these two target thresholds. These target thresholds were approved after adjustment by decision of the Committee (having taken external advice) to take account of the shortened financial year ending 31 December 2007. During the 7-month period ending 31 December 2007, the Committee continued to adopt performance conditions based on PBT and options granted to employees during the period were subject to conditions such that 25% of options will vest at £20 million PBT in the third financial year and 100% of options vesting at £30 million PBT in the third financial year ending 31 December 2009.

During the year ending 31 December 2008 the Committee adopted performance conditions based on cumulative growth in EPS requiring a minimum growth in EPS of 4% per annum above inflation over a three-year period at which level there is 25% vesting. Cumulative growth of 8% per annum above inflation is required for 100% vesting. The Committee believes EPS to be appropriate to help enhance alignment of the senior executive with shareholder interests whilst still maintaining focus on profitability across the senior management team. The Committee considered these targets to be stretching for the Company, reflecting its stage of growth at the time of the award. These options remain exercisable only after 3 years from the date of grant. In order to assess whether the performance conditions have been met, the Committee will utilise the earnings figures derived from the audited financial statements of the Group.

As a result of the proposed introduction of the Performance Share Plan as the Company's primary long-term incentive, it is intended that option awards in 2009 and in subsequent years will be targeted at the Company's most senior executives and be based on a fixed number of options (rather than value) related to an individual's performance and contribution. Furthermore, the Committee proposes to adopt a similar approach regarding the setting of cumulative EPS performance targets as in 2008 but proposes increasing the EPS growth required for maximum vesting from RPI +8% to RPI +15% per annum.

A separate share option plan has been established for the benefit of the Group's US employees. Such plan operates within the overall limit on issue of new shares of 10% of the Company's issued share capital applicable to all the Group's employee share schemes. The Pace Americas Sharesave Plan is based on the Pace Sharesave Plan rules and is designed to satisfy the US Internal Revenue Service requirements for such saving-for-shares plans.

MINIMUM SHAREHOLDING

Following the review of the Group's remuneration policies completed in February 2009 the Committee has introduced individual shareholding target requirements for members of the Executive Committee in the region of 1 x salary with a requirement (subject to a discretion of the Committee) for such executives to retain a portion of any net awards (ie after tax and exercise cost) of new vested share-based incentives until the target shareholding level is reached.

SERVICE CONTRACTS

Company policy is that in normal circumstances executive directors' notice periods should not exceed one year. Each of the executive directors has a service contract with the Company. Each of these agreements is terminable by the Company on twelve months' prior written notice or by the relevant director on not less than six months' prior written notice at the option of the Company, each agreement may be terminated forthwith subject to the Company paying a sum equivalent to 12 months' salary, benefits and pension contributions. The Remuneration Committee considers that compensation payments on termination of employment should depend on individual circumstances.

It is the Company's policy to honour its obligations with regard to directors' service agreements and where the employment of a director is terminated in accordance with the aforementioned contractual process the Company will pay the sum specified in the relevant service agreement as payable or otherwise pay fair and reasonable compensation.

The service agreement of Neil Gaydon was entered into on 4 May 2006 and was amended on 16 April 2007 and 21 January 2008. The service agreement of David McKinney was entered into on 14 November 2005 and was subsequently amended on 7 December 2006, 1 June 2007 and 21 January 2008. The service agreement of Stuart Hall became effective on 2 April 2007 and was subsequently amended on 21 January 2008. Save for the notice periods referred to in the above paragraph, these contracts have no unexpired term.

Each of the non-executive directors is appointed under a letter of appointment which is terminable at any time by the Company without contractual notice. Each of the directors has a letter of indemnity issued by the Company which provides an indemnity in respect of liabilities incurred in the course of their office to the extent permitted by the Company's Articles of Association and the provisions of the Companies Acts.

Copies of the service contracts of the executive directors and the letters of appointment of the non-executive directors, together with the letters of indemnity referred to above, are available for inspection during normal business hours (Saturdays, Sundays and Bank Holidays excepted) at the registered office of the Company.

The Company maintains directors' and officers' liability insurance in respect of senior employees including the directors. The consent of the Board is required in the event that an executive director wishes to accept an external appointment. It has been the practice of the Company to permit a director to retain non-executive fees arising from any such appointment but during the year none of the current executive directors held such external appointments.

The auditors are required to report on the information disclosed below and on pages 25 to 27.

DIRECTORS' REMUNERATION

Total directors' remuneration in respect of qualifying services for the year ended 31 December 2008 was as follows:

	12 m 31 Dec 2008 £000	7 m * 31 Dec 2007 £000
Fees	**237**	116
Salaries, benefits in kind and termination payments	**918**	487
Performance-related bonuses	**935**	710
Pension contributions	**119**	62
	2,209	1,375

The remuneration of individual directors in respect of qualifying services for the year ended 31 December 2008 is set out in the table below:

	Salaries and fees	Performance bonus ***	Benefits in kind	Total remuneration 12m 31 Dec 2008	Total remuneration 7 m* 31 Dec 2007	Pension contributions 12m 31 Dec 2008	Pension contributions 7m* 31 Dec 2007
Executive Directors	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Neil Gaydon	404	400	–	804	525	50	28
David McKinney	240	265	–	505	302	34	16
Stuart Hall	252	270	–	522	370	35	18
	896	935	–	1,831	1,197	119	62
Non-executive Directors							
Mike McTighe	106	–	–	106	58	–	–
Pat Chapman-Pincher	38	–	–	38	20	–	–
Robert Fleming**	28	–	22	50	18	–	–
Marten Fraser	38	–	–	38	20	–	–
John Grant**	13	–	–	13	–	–	–
Mike Inglis**	14	–	–	14	–	–	–
	1,133	935	22	2,090	1,313	119	62

* 7 Months to December 2007, reflecting the shortened financial year as Pace moved to a December financial year end from a May year end in 2007.

** Remuneration referable only to the financial year since appointment to the Board or up to date of retirement from the Board. Robert Fleming retired from the Board on 30 September 2008. Mike Inglis joined the Board on 25 July 2008 and John Grant joined on 1 August 2008.

*** Figures relate to the cash element of annual performance related bonus plus payment under the one-off integration bonus. The following additional amounts were awarded to executive directors under the terms of the annual performance related bonus plan but will be deferred into shares in the Company for a period of two years under the terms of the Group Deferred Share Bonus Plan. Neil Gaydon: £200,000; David McKinney: £120,000; and Stuart Hall: £127,500.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

The interests of directors holding office at the year-end, and those of their immediate families, in the ordinary share capital of the Company at 31 December 2008 and at the beginning of the period are set out below:

	31 December 2008 Shares			1 January 2008 Shares		
	Beneficial	**Non Beneficial**	**Under option**	**Beneficial**	**Non Beneficial**	**Under option**
Pat Chapman-Pincher	**15,000**	**–**	**–**	–	–	–
John Grant	**–**	**–**	**–**	–	–	–
Mike Inglis	**20,000**	**–**	**–**	–	–	–
Marten Fraser	**40,000**	**–**	**–**	20,000	–	–
Neil Gaydon	**41,684**	**–**	**2,335,257**	41,684	–	1,983,652
Stuart Hall	**12,739**	**–**	**855,844**	12,739	–	557,599
David McKinney	**15,000**	**–**	**1,058,008**	15,000	–	777,307
Mike McTighe	**75,000**	**–**	**–**	75,000	–	–

There were no changes in the directors' interests in the ordinary share capital of the Company between 31 December 2008 and 2 March 2009.

DIRECTOR SHARE OPTIONS

Details of the options over the ordinary shares of 5p each in the Company held by the directors who held office during the period were as follows:

	At 31 Dec 2007	Number of options Granted	Exercised	Lapsed	At 31 Dec 2008	Exercise Price	Exercise Period From	To
Neil Gaydon								
Approved Plan	3,498	–	–	–	3,498	857.5p	17.07.03	16.07.10
1996 Unapproved Plan	75,000	–	–	–	75,000	200.0p	07.07.02	06.07.09
1996 Unapproved Plan	250,000	–	–	–	250,000	74.25p	02.08.08	01.08.15
2000 Unapproved Scheme	20,000	–	–	–	20,000	51.0p	17.08.05	16.08.14
2000 Super Option	123,245	–	–	123,245	–	20.0p	21.01.04	20.01.13
2005 Unapproved Plan	600,000	–	–	–	600,000	63.5p	18.04.09	17.04.16
2005 Unapproved Plan	902,127	–	–	–	902,127	58.75p	02.10.09	01.10.16
2005 Unapproved Plan	–	467,836	–	–	467,836	85.5p	02.10.09	01.10.16
Sharesave Plan	9,782	–	–	–	9,782	46.00p	01.12.09	30.05.10
Sharesave Plan	–	7,014	–	–	7,014	67.00p	01.10.11	30.03.12
David McKinney								
2005 Approved Plan	47,430	–	–	–	47,430	63.25p	22.01.09	21.01.16
2005 Unapproved Plan	202,570	–	–	–	202,570	63.25p	22.01.09	21.01.16
2005 Unapproved Plan	510,638	–	–	–	510,638	58.75p	02.10.09	01.10.16
2005 Unapproved Plan	–	280,701	–	–	280,701	85.5p	02.10.09	01.10.16
Sharesave Plan	12,521	–	–	–	12,521	46.00p	01.12.09	30.05.10
Sharesave Plan	4,148	–	–	–	4,148	82.00p	01.10.10	31.03.11
Stuart Hall								
2005 Approved Plan	40,955	–	–	–	40,955	73.25p	02.04.10	01.04.17
2005 Unapproved Plan	505,120	–	–	–	505,120	73.25p	02.04.10	01.04.17
2005 Unapproved Plan	–	298,245	–	–	298,245	85.5p	02.10.09	01.10.16
Sharesave Plan	11,524	–	–	–	11,524	82.00p	01.10.10	31.03.11

The mid-market price of shares in the Company on 31 December 2008 was 54.75p. The lowest and highest closing mid-market prices of shares in the Company during the year were 34.50p and 97.50p respectively.

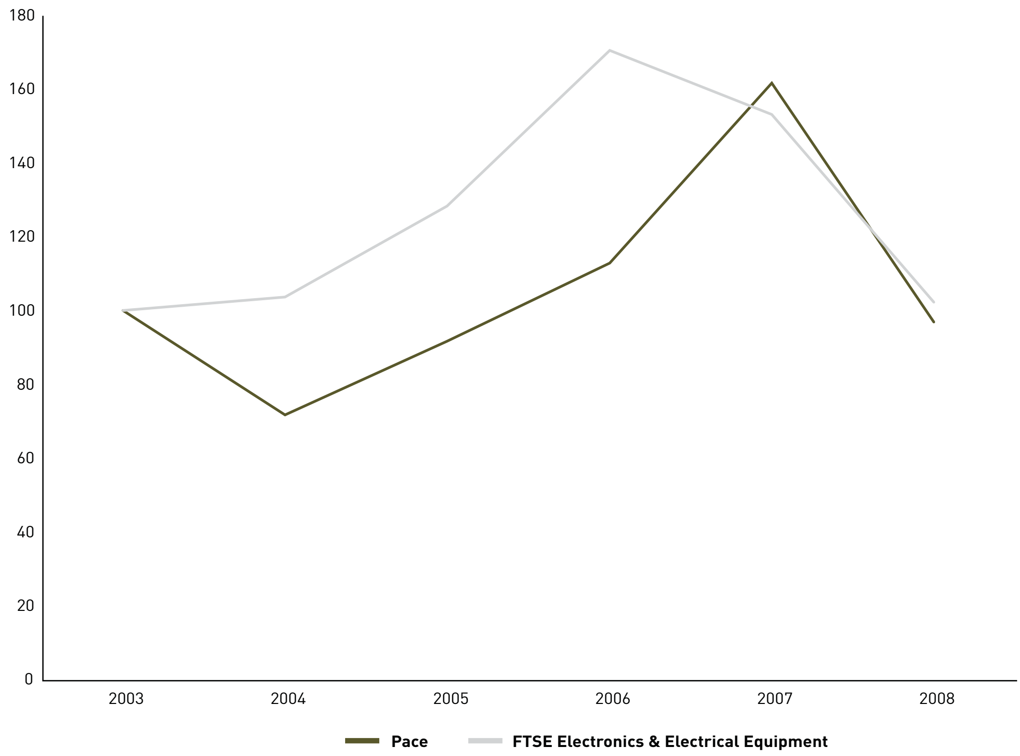
Information concerning the performance conditions attached to the above options is contained on page 22.

EMPLOYEE TRUSTS

The Company has established the Pace Micro Technology plc Employee Benefits Trust, which is capable of acquiring shares in the Company in the market and using them for the purposes of satisfying new awards granted under the Company's Share Option Plans, the Deferred Share Bonus Plan and the proposed PSP. During the year the Trust acquired 7.7 million shares in the Company at a cost of £3.2 million.

PERFORMANCE GRAPH

Set out below is a performance graph showing the total shareholder return of the Company for the five financial years ended 31 December 2008 compared to the total shareholder return of the FTSE Electronics and Electrical Equipment sector index which is considered by the Board to be an appropriate benchmark index against which to compare the Company's performance having regard to the principal activities of the Group.



By order of the Board

Anthony J Dixon
Company Secretary

3 March 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the parent company financial statements on the same basis.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for the financial year; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that 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 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.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

A copy of the accounts of the Company is posted on the Pace plc website (www.pace.com).

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PACE PLC

We have audited the group and parent company financial statements (the ''financial statements'') of Pace plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and parent company Balance Sheets, the Consolidated and parent company Cash Flow Statements, the Consolidated and parent company Statements of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Report and Accounts, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 29.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive Officer's Review and Chief Financial Officer's Review that is cross referred from the Business Review and Financial Results section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 and its risk and control procedures.

We read the other information contained in the Report and Accounts 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Director's 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 Director's Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Director's Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditors

3 March 2009

FINANCIAL STATEMENTS
CONTENTS

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	**Year ended 31 December 2008 £000**	7 months ended 31 December 2007 £000
Revenue	3	**745,475**	249,875
Cost of sales		**(610,268)**	(199,040)
Gross profit		**135,207**	50,835
Administrative expenses:			
Research and Development expenditure		**(60,480)**	(19,293)
Other administrative expenses:			
Before exceptional costs		**(45,553)**	(15,656)
Exceptional costs		**(10,962)**	-
Amortisation of other intangibles		**(3,715)**	-
Total Administrative expenses		**(120,710)**	(34,949)
Operating profit		**14,497**	15,886
Financial income – interest receivable	6	**202**	53
Financial expenses – interest payable	6	**(871)**	(589)
Profit before tax		**13,828**	15,350
Tax charge	8	**(2,774)**	(935)
Profit after tax		**11,054**	14,415
Attributable to:			
Equity holders of the Company		**11,054**	14,415
Basic earnings per ordinary share	9	**4.0p**	6.3p
Diluted earnings per ordinary share	9	**3.9p**	6.1p

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008

	Note	31 Dec 2008 £000	31 Dec 2007 £000
Assets			
Non Current Assets			
Property, plant and equipment	10	**14,702**	8,621
Intangible assets – goodwill	10	**76,337**	9,436
Intangible assets – other intangibles		**22,744**	-
Intangible assets – development expenditure	10	**26,490**	15,882
Available for sale financial assets	11	**349**	349
Deferred tax assets	12	**7,119**	5,059
Total Non Current Assets		**147,741**	39,347
Current Assets			
Inventories	13	**57,229**	28,668
Trade and other receivables	14	**231,009**	102,382
Cash and cash equivalents		**37,717**	-
Current tax assets		**204**	-
Total Current Assets		**326,159**	131,050
Total Assets		**473,900**	170,397
Equity			
Issued capital	19	**14,949**	11,684
Share premium	20	**37,023**	36,885
Merger reserve	21	**55,490**	-
Hedging reserve		**(3,783)**	-
Translation reserve		**13,005**	425
Retained earnings	22	**27,245**	18,608
Total Equity		**143,929**	67,602
Liabilities			
Non Current Liabilities			
Deferred tax liabilities	12	**15,733**	-
Provisions	18	**17,566**	12,487
Total Non Current Liabilities		**33,299**	12,487
Current Liabilities			
Trade and other payables	15	**278,718**	72,625
Current tax liabilities		**-**	460
Interest bearing loans and borrowings	16	**-**	12,094
Provisions	18	**17,954**	5,129
Total Current Liabilities		**296,672**	90,308
Total Liabilities		**329,971**	102,795
Total Equity and Liabilities		**473,900**	170,397

These financial statements were approved by the Board of Directors on 3 March 2009 and were signed on its behalf by:

Neil Gaydon Chief Executive Officer
Stuart Hall Chief Financial Officer

COMPANY BALANCE SHEET

AT 31 DECEMBER 2008

	Note	31 Dec 2008 £000	31 Dec 2007 £000
Assets			
Non Current Assets			
Property, plant and equipment	10	**8,268**	7,335
Intangible assets – development expenditure	10	**14,982**	15,882
Investments in group and other companies	11	**74,649**	9,749
Deferred tax assets	12	**4,016**	5,059
Total Non Current Assets		**101,915**	38,025
Current Assets			
Inventories	13	**8,005**	28,668
Trade and other receivables	14	**187,985**	102,052
Cash and cash equivalents		**15,799**	-
Total Current Assets		**211,789**	130,720
Total Assets		**313,704**	168,745
Equity			
Issued capital	19	**14,949**	11,684
Share premium	20	**37,023**	36,885
Merger reserve	21	**55,490**	-
Hedging reserve		**(4,086)**	-
Retained earnings	22	**20,858**	13,964
Total Equity		**124,234**	62,533
Liabilities			
Non Current Liabilities			
Provisions	18	**8,811**	12,487
Total Non Current Liabilities		**8,811**	12,487
Current Liabilities			
Trade and other payables	15	**173,732**	74,976
Current tax liabilities		**(7)**	474
Interest bearing loans and borrowings	16	**-**	13,146
Provisions	18	**6,934**	5,129
Total Current Liabilities		**180,659**	93,725
Total Liabilities		**189,470**	106,212
Total Equity and Liabilities		**313,704**	168,745

These financial statements were approved by the Board of Directors on 3 March 2009 and were signed on its behalf by:

Neil Gaydon Chief Executive Officer
Stuart Hall Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital £000	Share premium £000	Merger reserve £000	Hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 2 June 2007	11,659	36,751	-	-	227	2,300	50,937
Profit for the period	-	-	-	-	-	14,415	14,415
Currency translation adjustments	-	-	-	-	198	-	198
Total income and expense for the period	-	-	-	-	198	14,415	14,613
Deferred tax adjustments	-	-	-	-	-	606	606
Employee share incentive charges	-	-	-	-	-	570	570
Movement in employee share trusts	-	-	-	-	-	717	717
Issue of shares	25	134	-	-	-	-	159
Balance at 31 December 2007	11,684	36,885	-	-	425	18,608	67,602
Profit for the period	-	-	-	-	-	11,054	11,054
Net change in fair value of cash flow hedges transferred to profit or loss net of tax	-	-	-	(588)	-	-	(588)
Effective portion of changes in fair value of cash flow hedges net of tax	-	-	-	(3,195)	-	-	(3,195)
Currency translation adjustments	-	-	-	-	12,580	-	12,580
Total income and expense for the period	-	-	-	(3,783)	12,580	11,054	19,851
Deferred tax adjustments	-	-	-	-	-	(606)	(606)
Employee share incentive charges	-	-	-	-	-	1,011	1,011
Movement in employee share trusts	-	-	-	-	-	(2,822)	(2,822)
Issue of shares	3,265	138	55,490	-	-	-	58,893
Balance at 31 December 2008	**14,949**	**37,023**	**55,490**	**(3,783)**	**13,005**	**27,245**	**143,929**
Company							
Balance at 2 June 2007	11,659	36,751	-	-	-	(2,401)	46,009
Profit for the period	-	-	-	-	-	14,472	14,472
Deferred tax adjustments	-	-	-	-	-	606	606
Employee share incentive charges	-	-	-	-	-	570	570
Movement in employee share trusts	-	-	-	-	-	717	717
Issue of shares	25	134	-	-	-	-	159
Balance at 31 December 2007	11,684	36,885	-	-	-	13,964	62,533
Profit for the period	-	-	-	-	-	9,311	9,311
Net change in fair value of cash flow hedges transferred to profit or loss net of tax	-	-	-	577	-	-	577
Effective portion of changes in fair value of cash flow hedges net of tax	-	-	-	(4,663)	-	-	(4,663)
Employee share incentive charges	-	-	-	-	-	1,011	1,011
Movement in employee share trusts	-	-	-	-	-	(2,822)	(2,822)
Issue of shares	3,265	138	55,490	-	-	-	58,893
Deferred tax adjustments	-	-	-	-	-	(606)	(606)
Balance at 31 December 2008	**14,949**	**37,023**	**55,490**	**(4,086)**	**-**	**20,858**	**124,234**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Cash flows from operating activities		
Profit before tax	**13,828**	15,350
Adjustments for:		
Share based payments charge	**1,011**	570
Depreciation of property, plant and equipment	**4,504**	2,483
Amortisation and impairment of development expenditure	**21,895**	9,958
Amortisation of other intangibles	**3,715**	-
Loss on sale of property, plant and equipment	**-**	136
Net financial charges	**669**	536
Movement in trade and other receivables	**(67,810)**	(49,874)
Movement in trade and other payables	**124,572**	12,828
Movement in inventories	**(19,188)**	(3,400)
Movement in provisions	**4,098**	3,551
Cash generated from/(used in) operations	**87,294**	(7,862)
Interest paid	**(993)**	(468)
Tax paid	**(3,584)**	(242)
Net cash generated/(used in) from operating activities	**82,717**	(8,572)
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	**(3,134)**	-
Purchase of property, plant and equipment	**(6,584)**	(4,258)
Development expenditure	**(20,995)**	(12,170)
Interest received	**200**	53
Net cash used in investing activities	**(30,513)**	(16,375)
Cash flows from financing activities		
Proceeds from issue of share capital	**376**	159
Proceeds from exercise of employee share options	**407**	717
Repayment of loans	**-**	(159)
Purchase of own shares by employee benefit trust	**(3,229)**	-
Net cash generated from financing activities	**(2,446)**	717
Net change in cash and cash equivalents	**49,758**	(24,230)
Cash and cash equivalents at start of period	**(12,094)**	12,049
Effect of exchange rate fluctuations on cash held	**53**	87
Cash and cash equivalents at end of period	**37,717**	(12,094)

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Cash flows from operating activities		
Profit before tax	**8,689**	15,032
Adjustments for:		
Share based payments charge	**1,011**	570
Depreciation of property, plant and equipment	**3,883**	2,217
Amortisation of development expenditure	**21,895**	9,958
Loss on sale of property, plant and equipment	**12**	96
Net financial income	**669**	534
Movement in trade and other receivables	**(85,933)**	(49,907)
Movement in trade and other payables	**92,177**	12,612
Movement in inventories	**20,663**	(3,400)
Movement in provisions	**(1,871)**	3,551
Cash generated/(used in) from operations	**61,195**	(8,737)
Interest paid	**(953)**	(468)
Tax paid	**(44)**	-
Net cash generated from/(used in) operating activities	**60,198**	(9,205)
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	**(3,134)**	-
Purchase of property, plant and equipment	**(4,816)**	(3,979)
Development expenditure	**(20,995)**	(12,170)
Interest received	**143**	56
Net cash used in investing activities	**(28,802)**	(16,093)
Cash flows from financing activities		
Proceeds from issue of share capital	**376**	159
Proceeds from exercise of employee share options	**407**	717
Purchase of own shares by employee benefit trust	**(3,229)**	-
Net cash generated from financing activities	**(2,446)**	876
Net change in cash and cash equivalents	**28,950**	(24,442)
Cash and cash equivalents at start of period	**(13,146)**	11,275
Effect of exchange rate fluctuations on cash held	**(5)**	21
Cash and cash equivalents at end of period	**15,799**	(13,146)

NOTES

1 BASIS OF PREPARATION AND BUSINESS ENVIRONMENT

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

Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of derivative instruments.

International Financial Reporting Standards

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Company's Financial statements have been prepared on the same basis and as permitted by section 230(3) of the Companies Act 1985, no income statement is presented for the Company.

Financial Year End

The current year's financial statements are for the year ended 31 December 2008 and the previous year's financial statements are for the 7 months ended 31 December 2007 reflecting a change in the Company's accounting reference date from 31 May.

Basis of Consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings (note 11) drawn up to 31 December 2008. The results of subsidiaries acquired in the period are included in the income statement from the date they are acquired. On acquisition, all of the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Intra-group transactions, including sales, profits, receivables and payables, have been eliminated on the Group consolidation. Investments in subsidiaries are carried at cost less any impairment loss in the financial statements of the Company.

Significant judgements, key assumptions and estimation uncertainty

The Group's main accounting policies affecting its results of operations and financial condition are set out on pages 40 to 43. Judgements and assumptions have been required by management in applying the Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgements and assumptions. Key areas of estimation uncertainty and critical accounting judgements are as follows:

Warranties

Pace provides product warranties for its set-top boxes. Although it is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of a product before field deployment data is available, these estimates improve during the lifetime of the product in the field.

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

Royalties

Pace's products incorporate third party technology, usually under licence. Inadvertent actions may expose Pace to the risk of infringing third party intellectual property rights. Potential claims can still be submitted many years after a product has been deployed. Any such claims are always vigorously defended.

A provision for royalties is recognised where the owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. Having taken legal advice, the board considers that there are defences available that should mitigate the amounts being sought. The Group will vigorously negotiate or defend all claims but, in the absence of agreement, the amounts provided may prove to be different from the amounts at which the potential liabilities are finally settled. The provision is based on the latest information available.

EU Import duty classification

Pace, along with other set top box manufacturers and broadcasters, has continued to monitor the re-interpretation by European Union customs authorities of customs regulations that could result in the extension of import duties to interactive set-top boxes with a hard drive manufactured outside, but imported into, the EU. On 7th May 2008 the Nomenclature Committee of the European Commission issued an Explanatory Note "EN" (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the European Union. As a consequence, Pace is potentially exposed to a retrospective Customs Duty liability in respect of such set-top boxes it has imported.

Having previously obtained Binding Tariff Information ("BTI") rulings from HMRC, which provide protection in respect of much of the potential period of retrospective application of duty on relevant products and having taken legal advice, Management's opinion is that the retrospective application of the Explanatory Note would not be supportable in law. Accordingly Pace is in common with other affected importers, appealing any retrospective assessment made and will defend its position on this matter.

An assessment has been received from HMRC in an amount of £7.7m representing import duty relating to imports prior to 7 May 2008. Having taken advice, management's best estimate is that no material outflow of economic benefit would be required to discharge this obligation. As such, at 31 December 2008 any potential liability should be considered contingent.

Writ Issued against Company

A writ has been issued against the Company by a former customer relating to the supply of set-top boxes in 2000/2001. The amount claimed is $7.2m. The Directors believe that they have good defences to the claim and that, in the absence of any liability, no provision has been made. In addition on 15 July 2007 Pace filed a counter claim for circa $10m against this former customer and a related third party.

Going concern

The Group has put in place new borrowing facilities to December 2011 to a maximum of £35m. These facilities are subject to financial performance covenants.

The Board has prepared a working capital forecast based upon assumptions as to trading and the realisation of inventory, and the matters above, as well as building in the other circumstances noted in the Business Environment section within the Directors' Report. The Board has also modelled a number of alternative business scenarios. Based upon these the Board has concluded that the Group has adequate working capital, will meet the financial performance covenants and that therefore it is appropriate to use the going concern basis of preparation for this financial information.

2 ACCOUNTING POLICIES

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the fair value of the consideration paid on acquisition of a business over the fair value of the assets, including any intangible assets identified and liabilities and contingent liabilities acquired. Goodwill is not amortised but is measured at cost less impairment losses. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion, and the fair value of contingent consideration is based upon the extent to which the directors believe performance conditions will be met and thus whether any further consideration will be payable.

As permitted by IFRS 1, goodwill arising on acquisitions before 29 May 2004 (date of transition to Adopted IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment annually. The Group performs its annual impairment review at the cash-generating unit level.

Other intangibles

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Research and Development Expenditure

All on-going research expenditure is expensed in the period in which it is incurred. Where a product is technically feasible, production and sales are intended, a market exists, and sufficient resources are available to complete the project, development costs are capitalised and subsequently amortised on a straight-line basis over the estimated useful life of the product concerned from commercial launch. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Where these conditions are not met development expenditure is recognised as an expense in the period in which it is incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The estimated useful lives for development expenditure are estimated to be in a range of between 6 and 18 months.

Capitalised development expenditure is not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions required to be treated as an asset in accordance with IAS 38.

The amortisation of capitalised development expenditure is charged to the Income Statement in research and development expenditure within Administrative expenses category.

Impairment Charges

The Company considers at each reporting date whether there is any indication that non-current assets are impaired. If there is such an indication, the Company carries out an impairment test by measuring an asset's recoverable amount, which is the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business). If the recoverable amount is less than the carrying amount an impairment loss is recognised, and the asset is written down to its recoverable amount.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and 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 value does not exceed the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Exceptional Items

Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional operating items. Such items, which include for instance the costs of opening or closing premises, costs of significant restructurings and profits and losses made on the disposal of properties are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements. Exceptional operating items are excluded from the profit measures used by the Board to monitor underlying performance.

Revenue Recognition

Revenue comprises the value of sales of goods and services to third party customers occurring in the period, stated exclusive of value added tax and net of trade discounts and rebates.

Revenue on the sale of goods is recognised when substantially all of the risks and rewards in the product have passed to the customer, and substantially all of the Group's work is completed which is usually upon delivery to the customer, or his agent.

Revenue in respect of services rendered, including engineering consultancy and support and software services, is recognised over the period over which they are performed, in relation to the level of work undertaken, project milestones achieved and any future obligations remaining.

The Company does not enter into contracts that cover both the provision of hardware and services in combination.

Government Grants

Grants in respect of specific research and development projects are credited to research and development costs within the income statement or against the capitalised development expenditure as appropriate to match to the project's related expenditure.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. The Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Allowance for Doubtful Debts

Trade receivables are assessed individually for impairment, or collectively where the receivables are not individually significant. Where necessary, provisions for doubtful debts are recorded in the income statement.

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and includes appropriate transport and handling costs but excludes royalties due only on ultimate sale. Where necessary, provision is made for obolete, slow-moving and defective inventory.

Property, Plant and Equipment

The cost of items of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off, on a straight-line basis over the expected useful economic lives of the asset concerned, the cost of property, plant and equipment, less any estimated residual values, which are adjusted, if appropriate, at each balance sheet date. The principal economic lives used for this purpose are:

- Long Leasehold properties — Period of lease
- Short Leasehold properties — Period of lease
- Plant and machinery — One to ten years
- Motor vehicles — Four years

Provision is made against the carrying value of items of property, plant and equipment where an impairment in value is deemed to have occurred.

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term.

Currency Translation

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Exchange differences of a trading nature are dealt with in the income statement. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate approximate to the foreign exchange rate ruling at the date of the transactions.

Exchange differences from the above are taken directly to the translation reserve. They are released to the income statement on disposal.

Derivative Financial Instruments

The Group uses derivative financial instruments, usually forward foreign exchange contracts, to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Following enhancements in the Group's hedging policy and changes in the Group's currency profiles following the acquisition of Pace France (see note 29) the directors have determined that the instruments qualify for cash flow hedge accounting.

Derivative financial instruments are classified as cash-flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction.

Derivatives are reviewed quarterly for effectiveness. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or highly probable forecast transaction, the effective part of any gain or loss on the movement in fair value of the derivative financial instrument is recognised directly in equity.

The gain or loss on any ineffective part of the hedge is immediately recognised in the income statement within finance income/costs. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gains or losses that were recognised directly in equity are reclassified into the income statement when the transaction occurs.

Taxes

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing where relevant for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the liability settled.

A net deferred tax asset is recognised only when it is probable that sufficient taxable profits will be available in the foreseeable future from which the reversal of the temporary differences can be deducted.

Share-based Payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured by the Company and the Group at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

The value of the charge is adjusted in the income statement of the Company and the Group over the remainder of the vesting period to reflect expected and actual levels of option vesting, with the corresponding adjustment made in equity.

The Company has applied the exemption available under IFRS 2, to apply its provisions only to those options granted after 7 November 2002 and which were outstanding at 1 January 2005.

Employee Share Ownership Plans

The material assets, liabilities, income and costs of the Pace Micro Technology plc Employee Benefits Trust are treated as being those of the Company. Until such time as the Company's own shares vest unconditionally with employees, the consideration paid for the shares is deducted in arriving at equity.

Employee Benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The Group has no defined benefit arrangements in place.

Available for Sale Financial Assets

Available for sale financial assets are stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Finance Income

Finance income relates to interest income, which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Dividends Payable

Distributions to equity holders are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a final dividend when the dividend is declared by the Company's shareholders, and, for an interim dividend, when the dividend is paid.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(a) Royalties

A provision for royalties is recognised where the owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. The provision is based on the latest information available.

(b) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

(c) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Provisions are not recognised for future operating losses.

(d) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Accounting Standards Issued but not Adopted

No impact is expected upon the result or net assets of the Group or Company from any standards that are available for early adoption, but have not been early adopted.

3 SEGMENTAL ANALYSIS

The Group's principal activities are the development, design and distribution of digital receivers and receiver decoders, for the reception of digital television and the reception/transmission of interactive services, telephony and high speed data ("set-top boxes"). The Group also provides engineering design, software applications and support services to Multiple Service Operators, broadcasters, telecommunications companies and retail markets worldwide. Each of these services may be delivered over satellite, cable, terrestrial and IP network transmission systems.

The Directors have undertaken a review of the Group's business risks and consider that the continuing operations represent one product offering with similar risks and rewards and should be reported as a single business segment in line with the Group's internal reporting framework.

The geographical analysis of revenue which arises from the sale of goods and the provision of software, hardware and other consultancy services to third party customers is as follows:

Revenue by destination	**12 months ended 31 Dec 2008 £000**	7 months ended 31 Dec 2007 £000
United Kingdom	**110,251**	48,451
Continental Europe	**239,109**	41,107
Far East and Australasia	**81,883**	15,586
North America	**264,114**	144,731
Rest of the World	**50,118**	-
	745,475	249,875

4 EXPENSES AND AUDITORS' REMUNERATION

	12 months ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Fees payable to the Company's auditors for the audit of:		
Company's annual accounts	**155**	130
Fees payable to the Company's auditors and its associates for other services to the Group:		
audit of the Company's subsidiaries financial statements pursuant to legislation	**106**	8
other services pursuant to interim reporting legislation	**40**	20
other services relating to taxation	**43**	28
services relating to corporate finance	**372**	-
Services relating to information technology	**45**	-
Other services	**21**	-
Depreciation of plant, property and equipment		
owned	**4,504**	2,483
Other operating lease rental		
land and buildings	**3,605**	808
motor vehicles	**6**	15
Loss on disposal of plant, property and equipment	**-**	136
Net foreign exchange gains recognised within operating profit/loss	**1,718**	198

5 EXCEPTIONAL ITEMS

	12 months ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Restructuring and reorganisation costs	**8,946**	-
Integration costs	**2,016**	-
	10,962	-

The restructuring and reorganisation costs relate to a restructuring programme within the Group and represent incremental costs to the business in relation to employee costs which either have been incurred or will be incurred in the next twelve months. The integration costs relate to the integration of the acquired set top box business of Royal Philips Electronics.

6 FINANCE INCOME/COSTS

	12 months ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Finance income - Interest on bank deposits	**202**	53
Finance costs	**871**	589

7 STAFF NUMBERS AND COSTS

The average number of persons (including directors) employed by the Group and Company during the year, analysed by category were as follows:

	Group		Company	
	Year ended 31 Dec 2008	7 months ended 31 Dec 2007	Year ended 31 Dec 2008	7 months ended 31 Dec 2007
Research and development	**531**	411	**293**	294
Administration	**133**	129	**82**	99
Sales and marketing	**25**	22	**18**	19
Manufacturing and operations	**73**	29	**40**	24
	762	591	**433**	436

7 STAFF NUMBERS AND COSTS continued

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000	**Year ended 31 Dec 2008 £000**	7 months ended 31 Dec 2007 £000
Wages and salaries	**32,573**	12,974	**17,747**	9,729
Social security costs	**8,073**	1,666	**2,271**	1,357
Other pension costs	**1,412**	580	**1,005**	565
Share based payments (see note 25)	**1,011**	570	**1,011**	570
Redundancy costs	**8,023**	99	**175**	99
	51,092	15,889	**22,209**	12,320

Remuneration of Directors

The remuneration, share options and pension entitlements of the directors are disclosed in the Remuneration Report on pages 21 to 26.

8 TAX CHARGE

The tax charge is based on the profit for the year and comprises:	**Year ended 31 Dec 2008 £000**	7 months ended 31 Dec 2007 £000
Current tax:		
Adjustments in respect of previous periods		-
Overseas tax charge	**(2,921)**	(420)
Total current tax charge	**(2,921)**	(420)
Deferred tax:		
Origination and reversal of timing differences (note 12)	**1,097**	(1,367)
Adjustment in respect of previous periods	**(950)**	1,169
Effect of change in tax rate	**-**	(317)
Total deferred tax credit/(charge)	**147**	(515)
Tax charge in Consolidated Income Statement	**(2,774)**	(935)

8 TAX CHARGE continued

Reconciliation of effective tax rate:

		Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Profit before tax		**13,828**	15,350
Tax using domestic corporation tax rate at 28% (2007: 30%)		**3,872**	4,605
Effects of:			
Expenses not deductible for tax purposes		**1,614**	391
Effect of abolition of industrial building allowances		**371**	-
Brought forward unrecognised tax losses recognised in the period	**(3,142)**	(2,256)	
Research and development tax credit		**(1,523)**	(547)
Overseas tax not at 30%		**398**	105
Effect of tax relief on exercise of share options		**296**	(511)
Effect of change in tax rate		**(62)**	317
Adjustments to tax charge in respect of previous periods		**950**	(1,169)
Total tax charge		**2,774**	935

9 EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per share

The calculation of basic earnings per share is based on a profit after tax of £11,054,000 (7 months ended 31 December 2007: £14,415,000) divided by the weighted average number of ordinary shares in issue of 274,757,069 (7 months ended 31 December 2007: 229,141,578), excluding shares held by the Employee Benefits Trust.

Number of shares	**Year ended 31 Dec 2008 m**	7 months ended 31 Dec 2007 m
Weighted average number of ordinary shares in issue during the year	**274.8**	229.1
Dilutive effect of options outstanding	**3.0**	5.5
Diluted weighted average number of ordinary shares in issue during the year	**277.8**	234.6

Diluted earnings per ordinary share varies from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options.

To better reflect underlying performance, adjusted earnings per share is shown below. This measure makes adjustments to statutory profit after tax to remove the impact of the amortisation of intangibles relating to the acquistion in the period (£2,451,000 after tax) and the exceptional charges in the period (£7,892,640 after tax).

Adjusted basic earnings per ordinary share	**7.8p**
Adjusted diluted earnings per ordinary share	**7.7p**

10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Group	Goodwill £000	Other Intangibles £000	Development Expenditure £000	Long Leasehold Buildings £000	Short Leasehold land and Buildings £000	Plant, machinery and Motor Vehicles £000	Total property, plant and equipment £000
Cost							
At 2 June 2007	9,436	-	23,087	616	4,811	20,803	26,230
Exchange adjustments	-	-	-	31	(2)	46	75
Additions	-	-	12,170	-	2,014	2,683	4,697
Retirement of Assets	-	-	(4,198)	-	-	-	-
Disposals	-	-	-	(234)	(211)	(1,252)	(1,697)
At 31 December 2007	9,436	-	31,059	413	6,612	22,280	29,305
Exchange adjustments	13,339	4,819	1,899	124	265	4,272	4,661
Additions	-	-	20,995	-	1,907	4,677	6,584
Acquisitions	53,562	21,640	9,609	-	-	14,280	14,280
Retirement of Assets	-	-	(3,721)	-	-	-	-
Disposals	-	-	-	-	-	(664)	(664)
At 31 December 2008	**76,337**	**26,459**	**59,841**	**537**	**8,784**	**44,845**	**54,166**
Amortisation/depreciation							
At 2 June 2007	-	-	9,417	286	3,909	15,527	19,722
Exchange adjustments	-	-	-	16	(1)	25	40
Provided in the period	-	-	7,811	12	269	2,202	2,483
Retirement of Assets	-	-	(4,198)	-	-	-	-
Impairment	-	-	2,147	-	-	-	-
Disposals	-	-	-	(195)	(143)	(1,223)	(1,561)
At 31 December 2007	-	-	15,177	119	4,034	16,531	20,684
Exchange adjustments	-	-	-	37	105	2,730	2,872
Provided in the year	-	3,715	15,185	-	-	12,068	12,068
Acquisitions	-	-	-	17	664	3,823	4,504
Retirement of Assets	-	-	(3,721)	-	-	-	-
Impairment	-	-	6,710	-	-	-	-
Disposals	-	-	-	-	-	(664)	(664)
At 31 December 2008	**-**	**3,715**	**33,351**	**173**	**4,803**	**34,488**	**39,464**
Net book amount at 2 June 2007	9,436	-	13,670	330	902	5,276	6,508
Net book amount at 31 December 2007	9,436	-	15,882	294	2,578	5,749	8,621
Net book amount at 31 December 2008	**76,337**	**22,744**	**26,490**	**364**	**3,981**	**10,357**	**14,702**

Other intangibles

Other intangibles relate to balances relating to trademarks and licence agreements, customer contracts and relationships recognised as part of the acquisition of the Pace France business (see note 29).

All the goodwill at 31 December 2007 related to know-how acquired with the purchase of Xcom Multimedia Communications SA in February 2001. These assets are used as an integral part of the development of products which, to date, have been sold mainly into Pace Continental European markets. Accordingly, for impairment testing purposes the goodwill has been allocated to a cash generating unit comprising the Group's Continental European business.

10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT continued

Goodwill additions in the year relates to expected synergies, future revenue streams and know-how acquired with the purchase of Pace France in April 2008. The directors also consider that this business is an integral part of the development of products which will, in future be sold into Pace Continental European markets. Accordingly, for impairment testing purposes the goodwill has also been allocated to a cash generating unit comprising the Group's Continental European business.

The recoverable amount of the above unit including the goodwill is based upon a value in use calculation and is higher than the carrying value of the assets and goodwill allocated to this unit. The calculations use cash-flow projections based on actual operating results, budgets and 3 year forecasts, reflecting known purchase orders, sales contracts and the net result from planned product launches. Therefore the key assumptions are a growth rate of 1% on sales and 2% on overheads which has been used to extrapolate results. A discount rate of 12% has been used.

	Intangible assets	Property, plant and equipment			
Company	**Development Expenditure £000**	**Short leasehold and buildings £000**	**Plant and machinery £000**	**Motor vehicles £000**	**Total property, plant and equipment £000**
Cost					
At 2 June 2007	23,087	4,469	16,667	30	21,166
Additions	12,170	2,007	2,403	8	4,418
Disposals	(4,198)	(210)	(1,250)	-	(1,460)
At 31 December 2007	31,059	6,266	17,820	38	24,124
Additions	20,995	710	4,100	6	4,816
Disposals	(3,721)	-	(623)	-	(623)
At 31 December 2008	**48,333**	**6,976**	**21,297**	**44**	**28,317**
Amortisation/depreciation					
At 2 June 2007	9,417	3,596	12,311	30	15,937
Provided in the period	7,811	265	1,951	1	2,217
Retirement of Assets	(4,198)	-	-	-	-
Impairment	2,147	-	-	-	-
Disposals	-	(143)	(1,222)	-	(1,365)
At 31 December 2007	15,177	3,718	13,040	31	16,789
Provided in the year	15,185	656	3,224	3	3,883
Retirement of Assets	(3,721)	-	-	-	-
Impairment	6,710	-	-	-	-
Disposals	-	-	(623)	-	(623)
At 31 December 2008	**33,351**	**4,374**	**15,641**	**34**	**20,049**
Net book amount at 2 June 2007	13,670	873	4,356	-	5,229
Net book amount at 31 December 2007	15,882	2,548	4,780	7	7,335
Net book amount at 31 December 2008	**14,982**	**2,602**	**5,656**	**10**	**8,268**

11 INVESTMENTS IN GROUP AND OTHER COMPANIES

Group	Available for sale financial assets £000
Cost at 2 June 2007, 31 December 2007 and 31 December 2008	1,479
Provision at 2 June 2007, 31 December 2007 and 31 December 2008	(1,130)
Net book value at 2 June 2007, 31 December 2007 and 31 December 2008	**349**

Company	Intra-group loans £000	Shares in group undertakings £000	Available for sale financial assets £000	Total £000
Cost at 2 June 2007 and 31 December 2007	65,945	6,038	899	72,882
Additions in the year	-	64,900	-	64,900
Cost at 31 December 2008	65,945	70,938	899	137,782
Provision at 2 June 2007 and 31 December 2007	(62,583)	-	(550)	(63,133)
Net book value at 2 June 2007 and 31 December 2007	3,362	6,038	349	9,749
Net book value at 31 December 2008	**3,362**	**70,938**	**349**	**74,649**

11 INVESTMENTS IN GROUP AND OTHER COMPANIES continued

At 31 December 2008 the Company had a beneficial interest in the equity of the following subsidiary undertakings:

	Nature of operations	Percentage holding	Country of incorporation	Class of share capital held
EURL New Com Immobilier**	Holding Company	100%	France	Ordinary
Pace Advanced Consumer Electronics Limited	Dormant	100%	UK	Ordinary
Pace Asia Pacific Limited***	Administrative/ development support	100%	Hong Kong	Ordinary
Pace Distribution GmbH	Dormant	100%	Germany	Ordinary
Pace Distribution (Overseas) Limited	Holding Company	100%	UK	Ordinary/ Preference
Pace Micro Technology (HK) Limited	Holding Company	100%	Hong Kong	Ordinary
Pace Micro Technology (Australia) Pty Limited	Administrative/ development support	100%	Australia	Ordinary
Pace Americas Limited***	Administrative/ development support	100%	UK	Ordinary
Pace Americas, Inc	Trading	100%	USA	Ordinary
Pace Micro Technology (Asia Pacific) Limited*	Dormant	100%	Hong Kong	Ordinary
SCI Les 9 Tilleuls**	Property Company	100%	France	Ordinary
Pace Europe SAS***	Administrative/ development support	100%	France	Ordinary
Pace Micro Technology GmbH	Administrative/ development support	100%	Germany	Ordinary
Pace Micro Technology (India) Private Ltd***	Development support	100%	India	Ordinary
Pace Overseas Distribution Limited***	Trading	100%	UK	Ordinary
Pace France SAS	Trading	100%	France	Ordinary
Pace USA Inc****	Trading	100%	USA	Ordinary
Pace Belgium NV $	Trading	100%	Belgium	Ordinary
Pace Asia Home Networks Sdn BHD $	Trading	100%	Malaysia	Ordinary
Pace Networks Limited $	Trading	100%	UK	Ordinary
Pace Brasil – Industria Electronica e Comercio Ltda $	Trading	100%	Brazil	Ordinary
Pace Iberia SL $	Trading	100%	Spain	Ordinary
STB Anchor Mexicana SA DE CV $	Trading	100%	Mexico	Ordinary
Pace China Operations #	Administrative	100%	China	Ordinary

* Denotes company owned by Pace Micro Technology (HK) Limited

** Denotes company owned by Pace Europe SAS

*** Denotes company owned by Pace Distribution (Overseas) Limited

**** Denotes company owned by Pace Americas Limited

$ Denotes company owned by Pace France SAS

# Denotes company owned by Pace Asia Pacific Limited

Each of the subsidiary undertakings listed above has been consolidated in the Group's financial statements.

12 DEFERRED TAX ASSETS

Deferred tax assets have been recognised in respect of differences between accounting and tax carrying values and trading losses where it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities during the year are shown below:

Group	Property, plant & equipment £000	Trading losses £000	Intangibles £000	Short term Timing Differences £000	Foreign Exchange £000	Total £000
Recognised asset/(liabilities)						
At 31 December 2007	2,539	4,154	(2,717)	1,083	-	5,059
Arising on acquisition	-	-	(11,910)	-	-	(11,910)
Credited/(charged) to income statement	(1,220)	(829)	(1,106)	458	-	(2,697)
Credited/(charged) to equity/reserves	-	-	-	(606)	1,540	934
At 31 December 2008	**1,319**	**3,325**	**(15,733)**	**935**	**1,540**	**(8,614)**
Shown as deferred tax assets	1,319	3,325	-	935	1,540	7,119
Shown as deferred tax liabilities	-	-	(15,733)	-	-	(15,733)

Company	Property, plant & equipment £000	Trading losses £000	Intangibles £000	Short term Timing Differences £000	Foreign Exchange £000	Total £000
Recognised asset						
At 31 December 2007	2,539	4,154	(2,717)	1,083	-	5,059
Credited/(charged) to income statement	(1,220)	(829)	488	(416)	-	(1,977)
Credited/(charged) to equity/reserves	-	-	-	(606)	1,540	934
At 31 December 2008	**1,319**	**3,325**	**(2,229)**	**61**	**1,540**	**4,016**

There are no unrecognised deferred tax assets at the period end in respect of unutilised trading losses.

13 INVENTORIES

	Group		Company	
	31 Dec 2008 £000	31 Dec 2007 £000	**31 Dec 2008 £000**	31 Dec 2007 £000
Raw materials and consumable stores	**3,686**	3,589	**2,306**	3,589
Finished goods	**53,543**	25,079	**5,699**	25,079
	57,229	28,668	**8,005**	28,668

14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 Dec 2008 £000	31 Dec 2007 £000	**31 Dec 2008 £000**	31 Dec 2007 £000
Trade receivables	**225,192**	99,508	**154,171**	99,475
Amounts owed by subsidiary undertakings	**-**	-	**32,142**	-
Other receivables	**3,772**	1,651	**-**	1,563
Prepayments and accrued income	**2,045**	1,223	**1,672**	1,014
	231,009	102,382	**187,985**	102,052

15 TRADE AND OTHER PAYABLES

	Group		Company	
	31 Dec 2008 £000	31 Dec 2007 £000	**31 Dec 2008 £000**	31 Dec 2007 £000
Trade payables	**231,632**	59,620	**156,300**	59,435
Amounts owed to subsidiary undertakings	**-**	-	**-**	4,231
Social security and other taxes	**943**	586	**613**	437
Other payables	**234**	853	**1,161**	481
Accruals	**45,909**	11,566	**15,658**	10,392
	278,718	72,625	**173,732**	74,976

16 INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	31 Dec 2008 £000	31 Dec 2007 £000	**31 Dec 2008 £000**	31 Dec 2007 £000
Borrowings consist mainly of bank loans and overdrafts falling due:				
Within one year	**-**	(12,094)	**-**	(13,146)

Banking facilities of £35 million are available until December 2011 and consist of a revolving credit facility secured by a fixed and floating charge over the assets of Pace plc and its subsidiary undertakings.

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Short term debtors and creditors that meet the definition of a financial asset or liability respectively have been excluded from all the following analysis, other than the currency risk exposures.

This note provides information about the contractual terms of the Group and Company's interest bearing loans and borrowings (note 16). For more information about the Group and Company's exposure to interest rate, credit risk and foreign currency risk, see pages 9 and 10 of the Report of the Directors.

(a) Interest rate risk profile of cash/bank overdrafts

Currency	Floating rate £000	Interest free £000	Total £000
At 31 December 2008:			
Sterling	**15,717**	**9**	**15,726**
US Dollar	**10,279**	**1**	**10,280**
Euro	**4,402**	**1**	**4,403**
Other	**7,308**	**-**	**7,308**
Total	**37,706**	**11**	**37,717**
At 31 December 2007:			
Sterling	3,344	3	3,347
US Dollar	(7,791)	-	(7,791)
Euro	(8,068)	97	(7,971)
Other	321	-	321
Total	(12,194)	100	(12,094)

The interest rates on Sterling, US Dollar, Euro and other floating rate financial assets are linked to the relevant bank base rates.

(b) Currency exposures

The table below shows the Group's currency exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the Group which are not denominated in the operating or functional currency of the operating unit involved.

	Net foreign currency monetary assets/(liabilities)				
Functional currency of group operation	**£STL £000**	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
At 31 December 2008:					
Sterling		**(102,555)**	**7,542**	**137**	**(94,876)**
Euro	**(3,543)**	**(44,928)**	**-**	**(271)**	**(48,742)**
Other		**-**	**-**	**-**	**-**
Total	**(3,543)**	**(147,483)**	**7,542**	**(134)**	**(143,618)**
At 31 December 2007:					
Sterling		2,229	15,897	74	18,200
Total		2,229	15,897	74	18,200

(c) Gains and losses on currency derivatives

The majority of the Group's production costs are denominated in US Dollars. The Group endeavours to obtain as much of its income as possible in US Dollars but a significant proportion of income is currently received in Sterling or Euros. The Group's policy is to hedge forward progressively against movements in the value of foreign currencies, in respect of cash receipts and payments expected from transactions over the next 12 months.

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS continued

Outstanding currency derivatives:

	Sell Currency	Buy Currency	Principal Amount	Average Rate	Maturity
At 31 December 2008:	**Euro**	**US Dollar**	**$198.7m**	**1.39**	**Jan 09-Dec 09**
At 31 December 2007:	Euro	US Dollar	$64.8m	1.40	Jan 08-Apr 08

The Group's derivatives contracts qualify for hedge accounting and have a fair value at the balance sheet date of £5.0m (31 December 2007: £1.7m).

(d) Credit risk
The Group's credit risk is primarily attributable to its trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The Group does not require collateral in respect of financial assets. There were no significant impairments in the periods under review.

The credit risk on liquid funds is limited because counterparties are banks with high credit ratings. At each balance sheet date there was no significant concentration of credit risk.

Of the trade receivables at 31 December 2008 93% was within terms (31 December 2007: 85%). The balance was less than 30 days past due (31 December 2007: 15%).

(e) Liquidity risk
Cash resources are largely and normally generated through operations. Short term flexibility is achieved by the asset based lending facilities in place (note 16).

(f) Sensitivity analysis
In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the long term, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. The Directors consider that a change of 100 basis points in interest rates at any period end would not have a material impact on cash flows.

The Group's key foreign exchange exposures are in respect of the Euro and US Dollar. A 1% strengthening in Sterling against these would have a favourable impact of £1,355,000 on the profit reported in the year ended 31 December 2008 (seven month period ended 31 December 2007: £401,000) and an adverse impact of £925,000 on equity (seven month period ended 31 December 2007: £10,000).

(g) Capital management
In line with the disclosure requirements of IAS 1, Presentation of Financial Statements, the Company regards its capital as being the issued share capital together with its asset based lending facilities, used to manage short term working capital requirements.

Note 19 to the Financial Statements provides details regarding the Company's share capital and movements in the period. There were no breaches of any requirements with regard to any relevant conditions imposed by either the UKLA or the Company's Articles of Association during the periods under review.

Details of the Company's working capital facilities are given in Note 16. Such facilities are subject to certain financial performance covenants. There have been no breaches of these covenants in the period under review.

18 PROVISIONS

	Royalties under negotiation £000	Warranties £000	Other £000	Total £000
Group				
At 31 December 2007	9,208	8,408	-	17,616
Acquisitions	-	9,783	1,438	11,221
Net charge for the year	206	13,903	3,456	17,565
Utilised	(603)	(13,139)	-	(13,742)
Exchange adjustments	-	2,493	367	2,860
At 31 December 2008	**8,811**	**21,448**	**5,261**	**35,520**
Due within one year	-	12,693	5,261	17,954
Due after one year	8,811	8,755	-	17,566

	Royalties under negotiation £000	Warranties £000	Total £000
Company			
At 31 December 2007	9,208	8,408	17,616
Net charge for the year	206	7,433	7,639
Utilised	(603)	(8,907)	(9,510)
At 31 December 2008	**8,811**	**6,934**	**15,745**
Due within one year	-	6,934	6,934
Due after one year	8,811	-	8,811

Royalties under negotiation

The owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. Negotiations over these liabilities continue for long periods of time. The directors have made provision for the potential royalties payable based on the latest information available. Having taken legal advice, the Board considers that there are defences available that should mitigate the amounts being sought. The Group will vigorously negotiate or defend all claims but, in the absence of agreement, the amounts provided may prove to be different from the amounts at which the potential liabilities are finally settled.

Given the nature of the claims it is not possible to be more specific with regard to the timing of outflows.

The directors consider that to disclose the amounts unused following the negotiation of royalty claims during the year would be seriously prejudicial to other royalty claims under negotiation, in litigation or dispute. Accordingly the directors have aggregated amounts released unused with additional provisions made in order to arrive at the net charge for the year shown above.

Other provisions

Other provisions relate to onerous leases and restructuring provisions in relation to the restructuring of the Pace Europe business.

Warranties

Pace provides product warranties for its set-top boxes from the point of sale and a provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data, principally historical failure rates and related cost of repair information, and a weighting of all possible outcomes against their associated probabilities. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

Although it is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of product shipment before field deployment data is available, these estimates improve during the lifetime of the product in the field.

It is expected that the expenditure with regard to warranties will be incurred within three years of the balance sheet date.

19 SHARE CAPITAL

	31 December 2008		31 December 2007	
	Number	**£000**	Number	£000
Authorised				
Ordinary shares of 5p each	**300,000,000**	**15,000**	300,000,000	15,000
Allotted, called up and fully paid				
Ordinary shares of 5p each	**298,970,953**	**14,949**	233,682,856	11,684

On 21 April 2008 the Company alloted 64,481,049 ordinary shares at their market value at the date as part of its consideration for the purchase of the set-top box and connectivity solutions business of Royal Philips Electronics ("Pace France"). The shares had a nominal value of £3,224,052 and a total market value of £58,517,000.

During the year, the Company also allotted ordinary shares as follows:

	Number	Nominal value £000	Consideration £000
Employee share option scheme (32 pence)	314,417	16	100
Employee share option scheme (48 pence)	33,770	2	16
Employee share option scheme (59.5 pence)	218,994	11	130
Employee share option scheme (49 pence)	4,928	-	2
Employee share option scheme (46 pence)	3,097	-	1
Employee share option scheme (15.75 pence)	20,000	1	3
Employee share option scheme (58 pence)	211,842	10	123
	807,048	**40**	**375**

19 SHARE CAPITAL continued

The Company has granted options which are subsisting (including directors' options) in respect of the following presently unissued ordinary shares of 5p each.

Number of ordinary shares subject to option	Exercise period	Price per share pence
89,370	1 October 2008 to 31 March 2009	59.5
336,857	1 April 2009 to 30 September 2009	49.0
894,831	1 December 2009 to 30 May 2010	46.0
532,812	1 October 2010 to 31 March 2011	82.0
841,121	1 October 201 to 31 March 2012	67.0
206,470	11 May 2009 to 7 August 2009	73.0
175,000	7 July 2002 to 6 July 2009	200.0
231,935	11 January 2003 to 10 January 2010	599.5
68,169	17 July 2003 to 16 July 2010	857.5
13,137	29 January 2004 to 28 January 2011	610.0
105,000	24 July 2005 to 23 July 2011	375.0
144,623	24 July 2004 to 23 July 2011	375.0
22,337	18 January 2005 to 17 January 2012	357.0
231,250	22 October 2003 to 21 October 2012	15.75
60,000	26 August 2004 to 25 August 2013	51.0
100,000	3 February 2005 to 2 February 2014	75.0
25,000	17 August 2008 to 16 August 2014	51.0
115,000	17 August 2005 to 16 August 2014	51.0
250,000	23 January 2009 to 22 January 2016	63.25
425,000	2 August 2008 to 1 August 2015	74.25
2,891,513	2 October 2009 to 1 October 2016	58.75
75,000	28 November 2009 to 27 November 2016	61.25
50,000	19 February 2010 to 18 February 2017	69.5
75,000	16 March 2010 to 15 March 2017	66.5
588,746	1 November 2012 to 31 October 2017	97.75
1,988,424	24 June 2011 to 23 June 2013	85.5
1,605,889	24 June 2011 to 23 June 2018	85.5
715,581	24 June 2012 to 23 June 2014	85.5
227,354	24 June 2012 to 23 June 2014	85.5
300,000	18 December 2012 to 17 December 2018	47.0
82,560	18 December 2011 to 17 December 2018	47.0
13,468,279		

The Pace Micro Technology plc Employee Benefits Trust has granted options over existing shares to satisfy certain options. Details of these additional options are shown in note 25.

20 SHARE PREMIUM ACCOUNT

Group and Company	£000
At 31 December 2007	36,885
Premium on allotments	138
At 31 December 2008	**37,023**

The shares allotted during the year are listed in note 19.

21 MERGER RESERVE

Group and Company	£000
At 31 December 2007	-
Acquisition	55,490
At 31 December 2008	**55,490**

The merger reserve was created upon the acquisition of the set-top box and connectivity solutions business of Royal Philips Electronics (note 29).

22 RETAINED EARNINGS

Group	£000
At 31 December 2007	18,608
Retained profit for the year	11,054
Deferred tax adjustments	(606)
Employee share incentive charges	1,011
Purchase of own shares	(2,822)
At 31 December 2008	**27,245**

Company	£000
At 31 December 2007	13,964
Retained profit for the year	9,311
Deferred tax adjustments	(606)
Employee share incentive charges	1,011
Purchase of own shares	(2,822)
At 31 December 2008	**20,858**

Own shares held

The following amounts have been deducted from the retained reserves of the Group and Company.

At 31 December 2008 the Pace Micro Technology plc Employee Benefits held 11,615,707 (31 December 2007: 4,535,955) shares in the Company which cost £21,442,225 (31 December 2007: £18,996,738). These shares are held to satisfy options granted to employees.

The amounts arising on settlement of share options from the employee share trusts represents cash receipts from the exercise of relevant share options.

22 RETAINED EARNINGS continued

The Pace Micro Technology plc Employee Benefits Trust has granted options to employees (including directors' options) over ordinary shares of 5p each as follows:

Number of ordinary shares subject to option	Exercise period	Price per share pence
360,919	26 January 2002 to 25 January 2009	84.5
172,500	7 July 2002 to 6 July 2009	200.0
11,098	17 July 2001 to 16 July 2010	857.5
106,343	29 January 2002 to 28 January 2011	610.0
545,037	26 August 2004 to 25 August 2013	51.0
357,500	17 August 2005 to 16 August 2014	51.0
625,000	2 August 2008 to 16 August 2015	74.25
600,000	18 April 2009 to 17 April 2016	63.5
2,557,237	2 October 2009 to 1 October 2016	58.75
546,075	3 April 2010 to 2 April 2017	73.25
5,881,709		

23 PROFIT FOR THE YEAR

The parent Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own income statement in these financial statements. The Group profit includes a parent Company profit after tax of £9,311,000 (seven months ended 31 December 2007: profit after tax of £14,472,000).

24 CAPITAL COMMITMENTS

	Group and Company	
	31 Dec 2008 £000	31 Dec 2007 £000
Contracted but not provided for	**1,713**	1,058

25 EMPLOYEE BENEFITS

Pension plans

The Group contributes to several defined contribution Group Personal Pension Plans, which all executive directors and employees are entitled to join. The total expenses relating to these plans in the current year was £1,412,000 (seven months ended 31 December 2007: £580,000). At 31 December 2008 contributions of £Nil (31 December 2007: £Nil) were outstanding.

Share based payments

Details of the Company's share option schemes are included in notes 19 and 22 and the Remuneration Report. The number and weighted average exercise price of share options is as follows:

	Average Exercise Price 31 Dec 2008	**Weighted Number of Options 31 Dec 2008**	Average Exercise Price 31 Dec 2007	Weighted Number of Options 31 Dec 2007
Outstanding at the beginning of the period	**91.7p**	**16,478,998**	91p	18,492,508
Granted during the period	**80p**	**6,031,377**	89p	1,335,787
Forfeited during the period	**128p**	**(1,733,588)**	140p	(1,454,189)
Exercised during the period	**54p**	**(1,456,799)**	45p	(1,895,108)
Outstanding at the end of the period	**87.6**	**19,319,988**	91.7p	16,478,998
Exercisable at the end of the period	**149p**	**3,939,381**	168p	3,836,317

Outstanding options were as follows:

Range of exercise prices (pence)	Number at 31 Dec 2008	Weighted average remaining contractual life months	Weighted average exercise price
15.75p to 49p	1,845,498	39	43p
51p to 75p	10,434,323	81	62p
78p to 97.75p	5,990,025	106	86p
200p to 375p	619,460	17	276p
599.5p to 857.5p	430,682	17	650p
	19,319,988	**81**	

The weighted average exercise price of options granted in the period was 80p (year ended 31 December 2007: 89p).

The weighted average fair value at the measurement date of options granted in the year was 37p (year ended 31 December 2007: 37p).

The weighted average exercise price at the date of exercise for options exercised in the year was 54p (year ended 31 December 2007: 45p).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. The following table gives the assumptions applied to the options granted in the respective periods shown. Expectations of early exercise are incorporated into the model, where appropriate.

25 EMPLOYEE BENEFITS continued

	31 Dec 2008	31 Dec 2007
Average share price (pence)	**78.5**	97.0
Weighted average exercise price (pence)	**87.6**	91.7
Expected volatility (%)	**50%**	50%
Option life (years)	**10**	10
Dividend yield (%)	**1.4**	1.4
Risk free interest rate (%)	**5.0%**	5.0%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The charge for share based payments in respect of share options is £1,011,000 (seven months ended 31 December 2007: £570,000) which is comprised entirely of equity settled transactions.

26 LEASING COMMITMENTS

Total amounts payable under non-cancellable operating lease rentals are as follows:

	Group		**Company**	
	31 Dec 2008 £000	31 Dec 2007 £000	**31 Dec 2008 £000**	31 Dec 2007 £000
Land and buildings				
Within one year	**5,524**	1,097	**756**	812
Between two and five years	**9,840**	3,306	**2,776**	2,774
In five years or more	**2,082**	2,712	**2,082**	2,712
	17,446	7,115	**5,614**	6,298
Other				
Within one year	**-**	4	**-**	4
Between two and five years	**-**	-	**-**	-
	-	4	**-**	4
	17,446	7,119	**5,614**	6,302

27 CONTINGENCIES

A writ has been issued against the Company by a former customer relating to the supply of set-top boxes in 2000/2001. The amount claimed is circa $7.2m. The Directors believe that they have good defences to the claim and that, in the absence of any liability, no provision has been made. In addition on 15 July 2007 Pace filed a counter claim for circa $10m against this former customer and a related third party.

EU Import duty classification

Pace, along with other set top box manufacturers and broadcasters, has continued to monitor the re-interpretation by European Union customs authorities of customs regulations that could result in the extension of import duties to interactive set-top boxes with hard drives manufactured outside, but imported into, the EU. On 7th May 2008 the Nomenclature Committee of the European Commission issued an Explanatory Note "EN" (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the European Union. As a consequence, Pace is potentially exposed to a retrospective Customs Duty liability in respect of such set-top boxes it has imported.

Having previously obtained Binding Tariff Information ("BTI") rulings from HMRC, which provide protection in respect of much of the potential period of retrospective application of duty on relevant products and having taken legal advice, Management's opinion is that the retrospective application of the Explanatory Note would not be supportable in law. Accordingly Pace is in common with other affected importers, appealing any retrospective assessment made and will defend its position on this matter.

As of the date of this announcement, an assessment has been received from HMRC in an amount of £7.7m representing import duty relating to imports prior to 7 May 2008. Having taken advice, management's best estimate is that no material outflow of economic benefit would be required to discharge this obligation. As such, at 31 December 2008 any potential liability should be considered contingent.

28 RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its Directors.

Transactions with subsidiaries

The main transactions between the Company and its subsidiaries consist mainly of payments by the Company for distribution engineering and administrative support services provided by Pace Americas Inc., Pace Europe SAS and Pace Micro Technology (India) Private Ltd . Total transactions of £215.1m were made in the year.

The amounts due to and from these subsidiaries are shown within notes 14 and 15.

Transactions with key management personnel

Key management of the Group is through the executive directors of the Company. The main transactions with these individuals are disclosed in the Remuneration Report on pages 21 to 26.

Of the share option charge of £1,011,000 made in the period, 33% relates to options granted to the executive directors.

29 ACQUISITION IN THE PERIOD

The acquired business in the year relates to the set-top box and connectivity solutions business of Royal Philips Electronics ("Pace France"). Pace France employs approximately 335 staff predominantly based in France and is a leading designer and supplier of a range of digital TV products including satellite, cable, terrestrial and IPTV set-top box products. A 100% interest was purchased on 21st April 2008.

The consideration payable is made up of:

	£000
Shares issued (64,481,049) at market value	58,517
Deferred and contingent consideration	3,937
Acquisition fees	3,134
Acquisition consideration payable	65,588

The acquisition has been accounted for using the purchase method as required by IFRS 3.
The integration exercise has concentrated to date on maximising the profitability and operating efficiency of Pace France.
The acquisition date fair value of net assets/(liabilities) acquired and goodwill and intangible assets arising was as follows:

	Book value prior to acquisition £000	Fair value adjustments £000	Fair value of net assets/ (liabilities) acquired £000
Intangible fixed assets – development expenditure	16,450	(6,841)	9,609
Intangible fixed assets - other	-	21,640	21,640
Tangible fixed assets	2,212	-	2,212
Deferred tax liability	(5,758)	(3,733)	(9,491)
Current assets	70,964	-	70,964
Current liabilities	(70,516)	(1,171)	(71,687)
Non-current liabilities	(9,658)	(1,563)	(11,221)
Total net assets acquired	3,694	8,332	12,026
Goodwill recognised			53,562
Total investment cost			65,588

The fair value adjustments include an adjustment to capitalised development expenditure to align accounting methodologies and the establishment of provision for onerous lease and warranty costs.

29 ACQUISITION IN THE PERIOD continued

The other intangible assets consist of balances relating to trademarks and licence agreements, and customer contracts and relationships.

Goodwill recognised on acquisition is attributable to the skills and talent of the acquired business workforce, and the synergies expected to be achieved from integrating the business into the existing business.

From the date of acquisition (21 April 2008) to 31 December 2008, the contribution of Pace France to the Group results was as follows:

	£000
Revenue	292,909
Profit before tax, amortisation and exceptional items	8,400

Proforma results for the Group for the year ended 31 December 2008, on the basis that the acquisition had been made at the beginning of the period, are as follows:

	£000
Revenue	865,020
Profit before tax, amortisation and exceptional items	27,077

The above figures do not include the amortisation of the separately identified intangibles, which consists of a £3,715,000 charge in the period to 31 December 2008. The intangible assets are being amortised over various periods ranging from one year to five years.

30 POST BALANCE SHEET EVENTS

There are no significant or disclosable post balance sheet events.

DIRECTORS, SECRETARY AND ADVISERS

DIRECTORS

all of Victoria Road Saltaire BD18 3LF England

Robert Michael McTighe	Non-executive Chairman
Neil Gaydon	Chief Executive Officer
Stuart Andrew Hall	Chief Financial Officer
David Alyn McKinney	Chief Operating Officer
Patricia Chapman-Pincher	Non-executive Director
John Grant	Non-executive Director
Michael Inglis	Non-executive Director

COMPANY SECRETARY

Anthony John Dixon

REGISTERED AND HEAD OFFICE

Victoria Road
Saltaire
BD18 3LF
England
Registered Number 1672847

FINANCIAL ADVISERS

NM Rothschild & Sons Ltd
1 Park Row
Leeds
LS1 5NR

AUDITORS

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

REGISTRARS

Capita Registrars Ltd
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

STOCKBROKERS

RBS Hoare Govett Limited
250 Bishopsgate
London
EC2M 4AA

FIVE YEAR RECORD AND SHAREHOLDER INFORMATION

	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000	Year ended 2 June 2007 £000	Year ended 3 June 2006 £000	Year ended 4 June 2005 £000
Revenue	**745,475**	249,875	386,513	178,095	253,326
Profit/(loss) before tax	**13,828**	15,350	4,925	(27,450)	8,963
Profit/(loss) before exceptional items amortisation and tax	**28,505**	15,350	6,133	(15,562)	9,108
Profit/(loss) after tax	**11,054**	14,415	6,766	(28,784)	13,680
Diluted EPS/(LPS)	**3.9p**	6.1p	3.0p	(13.0)p	6.2p
Diluted EPS/(LPS) before exceptional items and goodwill amortisation	**7.8p**	6.1p	3.0p	(7.6)p	6.1p
Total equity attributable to equity holders of the parent excluding goodwill	**67,592**	58,166	41,501	33,031	60,316

SHAREHOLDER INFORMATION

Annual General Meeting

The Company's Annual General Meeting will be held at 12 noon on 22 April 2009, at the Company's head office, Victoria Road, Saltaire, West Yorkshire BD18 3LF.

Capita Registrars

Enquiries regarding shareholdings, change of address or other particulars should be directed in the first instance to the Company's Registrars, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, or by telephone on 0870 162 3131. They also provide a range of online shareholder information services at www.capitashareportal.com where shareholders can check their holdings and find practical help on transferring shares or updating their details.

Multiple Accounts on the Shareholder Register

If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your consent. If you would like any multiple accounts combined into one account, please write to Capita Registrars at the address given above.

Unsolicited Mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations, which may use it as a mailing list, resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS, or call +44 (0) 20 7291 3310 for an application form or visit www.mps-online.org.uk

Pace Website

Shareholders are encouraged to visit our website, www.pace.com, which has a wealth of information about the Company.

Pace plc, Victoria Road, Saltaire BD18 3LF UK
Tel: +44 (0) 1274 532000 Fax: +44 (0) 1274 532010

Pace®

BRINGING TECHNOLOGY HOME
www.pace.com

MKT-R&A08DE