Pace Micro Technology plc

Report & Accounts 2007 (Jun-Dec)

Operating Highlights

* Exceptional performance during the period, in line with increased expectations
* Solid underlying business trends, platform for growth now embedded
* Good balance of business across the Group and broadened product range
* Volume shipments of 2.4m set-top boxes (year ended 2 June 2007: 3.9m)

Financial Highlights

* Revenues of £249.9m (year ended 2 June 2007: £386.5m)
* Gross margin improvement to 20.3% (year ended 2 June 2007: 15.9%)
* Profit before tax £15.4m (year ended 2 June 2007: £4.9m)
* Earnings per share of 6.1p (year ended 2 June 2007: 3.0p)

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Letter from the Chairman

Mike McTighe

Chairman
29 January 2008

I am delighted to be able to give you a further update on Pace's performance, such a short time since I last wrote to you.

As you will have seen from the Company's announcements, Pace has now moved to a December financial year end. This means that from now on Pace's full year results will be published in the first calendar quarter and its half year interim results will be published in the third. This Annual Report focuses on the last seven months, from June 2007 to the end of December 2007, reflecting the shortened financial year as we move to our new reporting cycle.

It has been a pleasure to see the team at Pace deepen the Company's position as the leading digital TV technology company and take greater advantage of the revenue opportunities available in the set-top box market. Pace has achieved this by developing its business with new and existing customers, delivering profitable products on time, increasing market share in important areas such as high definition and PVR as well as investing in the right technologies for future growth. Consequently I am delighted to see the exceptional results your Company has achieved in this shortened financial year, which met our increased expectations.

In my last report I talked of our goal of achieving sustainable 20% gross margins for 2008. Through the management's new business operating model and hard work throughout the entire Group, we are already able to report a gross margin of 20.3%.

As we continue to focus on the strength of our balance sheet, the Board has decided not to recommend a dividend payment. We will continue to monitor this position.

At the end of 2007 we announced our conditional agreement to acquire the set-top box and connectivity solutions business of Royal Philips Electronics. We believe that this acquisition, if approved, will create more opportunities to grow Pace's business, better serve customers and provide increased scale. More information will be provided on publication of the Prospectus and Circular, which we expect to publish in early March.

Good progress has been made and when I last spoke to you I said that there remained a great deal of work to do to build a strong and resilient long-term business. Since then I am very pleased to report that Neil Gaydon and his team are continuing to deliver and their hard work is building a stable, mature platform for future results. The Board has confidence in this platform for long-term business growth and creation of shareholder value.

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@pacemicro.com.

Yours sincerely

Mike McTighe
Chairman
29 January 2008

Chief Executive Officer's Review

Neil Gaydon

Chief Executive Officer
29 January 2008

Overview

At the end of a year where we celebrated our 25th anniversary, I am pleased to report an outstanding period for our business, in which we delivered against our objectives and the strategy programme.

Since I last shared progress with you there have been significant developments at Pace. We have strengthened our position as the leading digital TV technology company, with customer wins, new product launches and increased market share. Financial performance has improved, customer satisfaction is growing and we are showing significant improvements against our Company's critical success factors of being On Margin, On Time and On Quality.

During the last seven months Pace teams have worked on over 30 projects for our payTV customers around the world. We have worked hard to develop and strengthen our position at heart of digital TV through advanced set-top box products and new technologies that meet the needs of our customers. At the end of the calendar year 2007 we also announced our intention to acquire the set-top box and connectivity solutions business of Royal Philips Electronics.

Trading Performance

We delivered a strong performance during this period, meeting our increased expectations, due to the actions put in place to improve business efficiencies along with exceptional performance in North America.

Product margins, execution and quality all improved and we increased profitability to £15.4m (year ended 2 June 2007: £4.9m) on revenues of £249.9m (year ended 2 June 2007: £386.5m). These revenues have remained well balanced between our markets in North America (58% of total) and those in Europe and Australasia (42%). In terms of volumes, Europe and Australasia were higher than North America. Overall during the seven month period we shipped 2.4m set-top boxes with average selling prices rising from £100 to £102, due to demand for higher specification products such as standard and high definition personal video recorders. We have been able to meet this demand as well as win new business due to our ongoing early investment in new technology.

Outlook

I am pleased with the results we have achieved and the depth of quality in our organisation that is enabling us to deliver a solid, sustainable platform for growth, which is now embedded across the Group.

Demand for our products and services is being driven by increasing competition between payTV providers, new entrants, new content delivery systems in addition to analogue switch-off in many markets. These fundamental trends are expected to continue for the foreseeable future. For example, operators are seeking to drive up their average revenue per user (ARPU) and satisfy their customers' demands with payTV solutions that are both innovative and easy to use. The competitive landscape is generating market excitement that is stimulating consumer demand and further market development.

Market surveys point to standard definition (SD), high definition (HD) and personal video recording (PVR) continuing to grow. We have been successful in leading the market for HD and PVR products, but this is still a very new market and penetration levels, in the majority of regions, remain low. In fact, leading analysts expect that by the end of 2007 only 4% (just over 2 million) of the digital set-top boxes shipped in EMEA (Europe, Middle East and Africa) will be HD. During the same period it is expected that over 16 million new HD-ready TV panels will have been shipped . This is an area of opportunity we will continue to work hard to succeed in.

While the market remains difficult to predict and our performance is largely predicated on the performance of our customers, we are confident that we are investing in the right products and technologies to meet the demands of our growing customer base and are on track to meet our expectations for the 2008 financial year.

Taking a closer look

Pace continues to deliver

I am delighted to report that we continue to deliver the Pace vision of *Great products to our customers every time*, for both our internal and external customers, doing so with excellence and enthusiasm. Our portfolio of payTV customers is the best in the world and we now have the optimum structure to deliver on their needs for leading products. We provide a full range of services from strategic advice as to the technology decisions our customers need to make, through to the development and delivery of customised set-top box solutions that in turn we integrate for each operator's unique system and network. Of course our relationship does not stop there as our products, once installed, are software upgradeable, and therefore we provide long term customer support; with many relationships going back over twenty years.

Pace has a world leading team of engineers dedicated to developing digital TV technology. Over 60% of our employees are engineers where we employ specialists and experts in software, hardware and systems integration. Our emphasis on innovation means that today Pace has been granted over 100 patents, with over 200 applications pending. Our creative approach and the developments we have pioneered in digital TV technology enables us to diversify with first to market profitable products that put us at the heart of the fascinating interconnected and interoperable media universe.

We treat our ability to innovate and lead in this way with the same emphasis and care that we treat our focus on delivering products to our customers. Our focus on these two areas means that we can deliver with excellence today while planning for the future of Pace, the digital TV market and our customer requirements.

Pace at the heart of Digital TV

The set-top box embodies a digital TV service within the home and is a highly complex electronic device. That complexity demands in-depth customer relationships and close partnerships with third party technology and silicon providers if our products are to deliver the services our customers demand and to the quality they expect. Pace is at the heart of making this happen; we are the hub in the value chain. We have the widest range of industry partnerships from conditional access providers to software application developers, ensuring we deliver the best set-top box products for our customers.

Our customer centric organisational structure, built around core technology requirements of our customers, has enabled us to make important steps forward in our industry position, improving the effectiveness of these business critical relationships. We aim to be one of the world's leading digital set-top box companies by continuing to win business with the world's leading payTV operators, growing relationships with our existing customers, winning new customers and developing world leading technological products ahead of our competition.

Geographical performance

Our approach is driving performance improvements across all of our markets. In North America, the world's largest market for digital television technology, we performed strongly shipping 0.9m set-top boxes in the seven month period (year ended 2 June 2007: 1.2m). We have strengthened our US cable market position by investing early in next generation products and have been quick to market with our new OCAP-ready CableCARD™ range that meets new US regulatory requirements for separable security in cable set-top boxes. Orders for our CableCARD products are increasing, while demand for satellite products remained strong.

We also delivered a strong performance in EMEA and APAC markets, achieving a level of shipments into the EMEA region of 1.3m set-top boxes (year ended 2 June 2007: 2.2m), and shipments into the APAC region of 0.2m (year ended 2 June 2007: 0.4m). Demand for our HD PVR grew. Digiturk recently launched its HD PVR service using Pace set-top boxes, which is the first implementation of our new Irdeto conditional access / OpenTV middleware platform. As anticipated this platform is enabling us to win new customers and in September we announced, Multichoice in South Africa. Multichoice is typical of the customers we work with: the leading payTV operator in a region with rights to the best content, strong engineering and a customer base receptive to the latest developments in digital TV technology. Most recently it was announced that we will supply Viasat for their HD PVR launch in the Nordic countries. A Pace team has been working on this product to create the specific, customised HD PVR the customer requires for its service. Each operator set-top box we create requires a unique product development and one which also creates a good return on investment.

These new business wins have extended Pace's customer-base of leading payTV operators that includes BSkyB, Sky Italia, and UPC in EMEA. In Australia and New Zealand Pace has continued to ship products to Foxtel, Optus and Sky New Zealand.

New Developments and diversification

Pace's Retail Product Range

Pace is at the centre of the digital TV market, with a very experienced understanding of the needs of both operators and consumers. For the last 10 years our focus has been on strengthening and developing our relationships with operators, to provide outstanding set-top boxes and network products that access payTV. Pace is now preparing to bring to market a product range that allows "pay-as-you-go" business models where consumers can mix some subscription channels with on-demand movies and free content. Consumers will be able to purchase this product range direct through their retailer. This is another example of Pace's commitment to innovate where there is a clear market need for a solution.

Networks

At the International Broadcasting Convention in September 2007, we announced the launch of Pace Networks, a new business unit that will open new markets for us further up the chain in the delivery of digital content by utilising our skills in TV, DVB, DOCSIS and IP technologies. This business will use a different business model and route to market to those employed in our set-top box business to reach both existing customers and customers in new and different markets.

The first Networks product is Pace MultiDweller™, which we have been developing for the last couple of years and enables operators to deliver a full suite of interactive digital services to customers in multi-dwelling units (MDUs), including digital video, broadband and telephony. Today over 50% of Europe's population live in MDUs.

MultiDweller is a very cost effective and easy to install method of converting existing distribution networks within MDUs into high-speed triple-play bi-directional networks, without the need for any modification or additional cabling. We will not only provide the consumer premise equipment, but will licence the set-top box technology to enable third party set-top box manufacturers to communicate with MultiDweller. We are already working with our first customer and I am excited about the possibilities and opportunities Networks could open up for us.

New Pace with broader and deeper reach

Our intention to acquire the Philips STB and CS Business, announced on 19th December 2007, carries the aim of creating a leading centre of excellence in the set-top box industry. Pace and Philips have a shared heritage in the set-top box market of over 20 years each and there is a strong complimentary and strategic fit from customer, product, geographic, culture and scale perspectives.

The transaction would result in the acquisition of two key business units from Royal Philips Electronics. These assets are the Set-top Box and Connectivity Solutions Units, with the latter developing products that include advanced residential gateways for home networking and internet connectivity. We believe there is potential for substantial benefits and growth by applying our proven operating model and structure to the Philips business. Our approach has delivered a material improvement in our operating and financial performance, as can be seen from the 2007 results.

To conclude, I am pleased to report a confident view of progress for the next year with opportunities for growth in existing and new markets.

Neil Gaydon
Chief Executive Officer
29 January 2008

Chief Financial Officer's Review

Stuart Hall

Chief Financial Officer
29 January 2008

Our customer focus and new business operating model has delivered improved results with strong underlying performance trends, in particular gross margin improvement.

We have established a strong platform for growth by concentrating on profitable business as well as investing in new technologies. To help achieve our goals we have deepened financial knowledge throughout the organisation, empowering our people to make better informed business decisions. This is beginning to deliver strong results as we continue in our development as a world class technology company.

Trading in the period

In the seven month period we shipped 2.4m set-top boxes (year ended 2 June 2007: 3.9m) with revenues of £249.9m (year ended 2 June 2007: £386.5m). Average selling prices rose from £100 to £102, reflecting the growing demand for higher specification products such as HD PVR, a demand we have been able to meet due to our ongoing early investment in new technology.

Gross margin of 20.3% shows a significant improvement from the previous year (year ended 2 June 2007: 15.9%) through thorough and close management of the business.

Overheads

Overheads, excluding the impact of IAS38, were £37.2m (year ended 2 June 2007: £55.7m, excluding restructuring costs). R&D spend before capitalisation of development expenditure in line with IAS38 was £21.5m (year ended 2 June 2007: £31.3m) as Pace continued to invest in higher specification products such as HD PVR and new technologies. The IAS38 adjustment was a net credit of £2.2m (year ended 2 June 2007: net credit £2.4m) principally as a result of the investment in MultiDweller and retail products that are scheduled to be launched during 2008.

At the year-end our total headcount was 583 (2 June 2007: 599), which includes 406 people in engineering (2 June 2007: 390), but excludes the 125 outsourced engineers working in our Pace India office in Bangalore that are subcontracted from Tata Elxsi (2 June 2007: 118).

Profit before tax and profit for the period

Profit before tax was £15.4m (year ended 2 June 2007: £4.9m). The interest charge was £0.5m (year ended 2 June 2007: £2.2m) the reduced level of charges reflecting higher levels of cash held during the period.

Profit for the period was £14.4m (year ended 2 June 2007: £6.8m).

Taxation

At 31 December 2007 the Group has a deferred tax asset of £5.1m representing UK tax losses of c£18m. A tax charge of £0.9m (year ended 2 June 2007: credit £1.8m) reflects overseas tax charges of £0.4m and deferred tax movements of £0.5m (relating to change in UK Corporation tax rate from 30% to 28%) and recognition of losses.

We will start to incur a normal UK tax charge, and will start to pay UK tax again, once available tax losses are utilised. In addition to the UK, where all of the commercial risk in our product strategy is taken, we have a tax exposure to US, French and other overseas jurisdictions.

Cash flow and banking facilities

The net working capital position at 31 December 2007 was £58.4m (2 June 2007: £30.5m). This change was due to an inventory increase of £3.4m (in line with normal working capital requirements), debtor increase of £49.8m and creditor increase of £13.3m. Debtors increased due to the exceptional sales performance and debtor days increased to 52 days (year ended 2 June 2007: 46 days) due to customer mix. Creditor days of 64 days remained in line with the prior year of 65 days.

Due to the increase in the level of working capital at the period end, the Group finished the period with a net borrowings position of £12.1m (2 June 2007: net cash £11.9m).

Balance Sheet

Non current assets

Property, plant and equipment levels show an increase from £6.5m to £8.6m principally due to the investment in refurbishing and upgrading our headquarters.

Intangible assets represent capitalised development expenditure as required under IAS38 and have increased from £13.7m to £15.9m due to our investments in MultiDweller and retail products.

Current assets and current liabilities

As noted above the net working capital position has changed in the period due to higher revenues.

Provisions within one year relate entirely to the appropriate element of warranty provisions held.

Non-current liabilities

Non-current liabilities represent royalties and warranty provisions, both of which have increased in line with the levels of business.

Foreign exchange

While a significant proportion of income has been received in the period in US dollars from sales into the US, there remains much income that is received in Sterling or Euros. The majority of our production costs are designated in US dollars. We have a policy of hedging progressively against movements in the value of foreign currencies, in respect of specific cash receipts and payments expected over the next 6 months.

Year-end rates used in the accounts are $1.99:£1 (2 June 2007: $1.98:£1) and €1.39:£1 (2 June 2007: €1.46:£1).

Basis of preparation

Note 1 to the Financial Statements contains the significant accounting judgements, key assumptions and estimation uncertainties used in preparing the accounts.

Looking ahead 2008 will be the first full year of our new reporting cycle, where the year will close on 31 December. This will enable us to more closely align our business reporting cycle with those of our principal customers and suppliers, which will benefit us in the future.

Stuart Hall
Chief Financial Officer
29 January 2008

Report of the Directors

The directors present their report to shareholders on pages 9 to 19 together with the audited financial statements for the 7 month period ("period") ended 31 December 2007 (prior year 52 weeks ended 2 June 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 Review 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 period, including the key financial performance indicators relevant to the business of the Company (principally revenue, gross margin %, profit before tax and cash), can be found on pages 4 to 6 of the Chief Executive Officer's Review and the Chief Financial Officer's Review on pages 7 and 8. The aforementioned information is incorporated in this report by reference.

Risks and Uncertanties

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

Customers and Markets

Orders placed by the Company'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 rate of deployment of the set-top boxes can be unpredictable, revenues can be volatile. The difficulty in predicting the Company'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 are usually dependent on product approvals and acceptance both from the operator and sometimes from third parties.

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 credit ratings equal to or better than the Group.

Liquidity Risk

The Group policy with respect to liquidity risk is to maintain a sufficient level of undrawn committed borrowing facilities to meet any unforeseen obligations or liabilities. Short term cash balances, together with undrawn committed credit facilities enable the Group to manage its credit risk.

Royalties

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

Regulatory

Like all other businesses, the Group remains exposed to changes in the regulatory environment, including potential modifications in import duty regimes, discussions on which have been and continue to be held.

Currency Risks

The Group's functional currency is Sterling. The standard 'industry currency' is the US dollar, with the majority of components and manufacturing capacity purchased in this currency. As a result, due to part of the Group's sales being in Sterling and Euros (the sale prices of which will be fixed for months in advance) the Group remains 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 a greater percentage of US dollar sales to provide a commercial hedge against currency exposures.

Interest Rate Risk

The Group's policy is to review regularly the terms of its available short term borrowing facilities and to assess individually and manage each long-term borrowing commitment accordingly. The Group does not currently take out any interest rate swaps.

Financial Results

The consolidated income statement for the 7 months ended 31 December 2007 is set out on page 31. The profit before tax was £15.4 million (52 weeks ended 2 June 2007: £4.9 million).

Dividend

No interim dividend was paid during the period. The directors do not recommend the payment of a final dividend (52 weeks ended 2 June 2007: nil).

Share Capital

Changes in the Company's share capital during the 7 months ended 31 December 2007 are set out in note 19 to the financial statements.

Significant Shareholdings

The Company has been notified of the following significant shareholdings as at 29 January 2008.

	Number of shares	% of issued share capital
David Hood and related family trusts	44,486,957	19.03
Gartmore Investment Management	24,774,480	10.60
Legal & General Investment Management Limited	11,884,876	5.08
Barclays Investors	11,736,882	5.02
Robert Fleming and related family trusts	8,880,178	3.80

Directors

The names of the current directors of the Company are shown below. All those listed held office throughout the period.

Mike McTighe

Mike, aged 54, was appointed a Non-executive Director in June 2001 and became Chairman on 1 May 2006. He is currently Chairman of a number of private equity-backed companies and, in addition, is a member of the board of OFCOM, a Director of London Metal Exchange Holdings Ltd and a non-executive Director of Alliance & Leicester plc. Mike also advises a number of private equity partnerships. 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 of the Netherlands, 5 years with Motorola, and 10 years with GE.

Neil Gaydon

Neil, aged 47, 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, aged 60, 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 also Chairman of Rapid Mobile Ltd, a non-executive director of Stepstone ASA and a non-executive director of Friends of the Earth.

Rob Fleming

Rob, aged 51, joined the Company in 1983 and became Operations Director in 1984, with responsibility for production and distribution. With effect from February 1999 he assumed responsibility for the Engineering function within the Group and became a Non-executive Director of the Company in May 2001. He is Chief Executive of The Franklyn Group Limited, a care property group, and a board member of Bradford U.R.C.

Marten Fraser

Marten, aged 61, was appointed a Non-executive Director in February 2005. A Chartered Accountant, he was previously senior partner at PricewaterhouseCoopers, Nottingham, where he worked in the Audit and Business Advisory Services Department, and prior to this he was the partner in charge of the East Midlands practice of Price Waterhouse.

Stuart Hall

Stuart, aged 40, was appointed Chief Financial Officer and joined the Board on 2 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.

David McKinney

David, aged 46, was appointed Chief Operating Officer in April 2006 and joined the Board on 24 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 spent ten years in the semiconductor industry including NEC Semiconductors and Digital Equipment Corporation, before moving to and spending over ten years in the telecommunications sector including Motorola and Royal Philips Electronics, where he held senior executive and operational management roles.

Neil Gaydon and Rob Fleming will retire by rotation at the Annual General Meeting of the Company and offer themselves for re-election. Details of the executive directors' service contracts and the non-executive directors' letters of appointment are disclosed on pages 22 and 23.

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 64 days (52 weeks ended 2 June 2007: 65 days) and for the Company were 64 days (52 weeks ended 2 June 2007: 65 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 £21.5 million in the period (52 weeks ended 2 June 2007: £31.3m) and charging £19.3 million (52 weeks ended 2 June 2007: £28.9m) to the income statement during the year following the treatment under IAS38.

Donations

During the period the Group donated £25,000 (52 weeks ended 2 June 2007: £40,800) to charitable causes. No political donations were made. Further details of the charitable and community-related activities of the Group are given on page 17.

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 dated June 2006, 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 apart from Rob Fleming who was previously an executive director of the Company. 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 monthly. 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. The Board did not undertake such a review and evaluation during the 7-month period ended 31 December 2007 since such an exercise had been conducted in May 2007 during the previous financial year. A formal review and evaluation will be conducted in the year ending 31 December 2008.

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.pacemicro.com.

The Audit Committee is comprised of independent designated non-executive directors, Pat Chapman-Pincher and Marten Fraser, who is the Chairman of the Committee. 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
David Gillies	Director of Technology
Helen Kettleborough	Director of Corporate Communications
Michael Pulli	President, Pace Americas
Richard Slee	President, EMEA & APAC

The Remuneration Committee is comprised of Mike McTighe and independent designated non-executive directors Marten Fraser and Pat Chapman-Pincher, who is the Chairman of the Committee. 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, Marten Fraser and Rob Fleming, 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	6	2	1	0
Pat Chapman-Pincher	6	2	1	0
Robert Fleming	6	-	-	0
Marten Fraser	6	2	1	0
Neil Gaydon	6	-	-	0
Stuart Hall	5	-	-	-
David McKinney	6	-	-	-
Mike McTighe	6	-	0	0

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 26 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 2007 the Company was authorised by shareholders to purchase up to 23,320,653 of its own ordinary shares, representing 10 per cent of its issued share capital as at 18 October 2007. 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 2008 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 27 and the responsibilities of the auditors are described on pages 28 and 29.

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 period and up to the date of this report, the Board carried out a review 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 so as to focus the business on customer needs.

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. All the Group's main sites 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 has determined that, having regard to the size of the Group and the control and monitoring systems referred to above, there is no current business requirement for such an appointment.

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 having reviewed the Group's budget and forecasts for the period to 31 January 2009, 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 across all the Group's main sites 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.

The health and safety officer continues to carry on ergonomic risk assessments and developing ergonomic strategies whilst safety representatives 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 7-month period ended 31 December 2007 was 5 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, Grenoble 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 period 69 requests for support were considered by the committee, 62 of these satisfying the criteria and receiving financial support amounting to £25,000. 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.

Further details of the charitable and community donations made during the year and criteria for awards made by the Charitable Donations Committee can be obtained from the Company Secretary.

Environmental Management

The Company has maintained certification to the international management standard ISO 14001 at its Saltaire, Grenoble 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) and 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: http://www.pacemicro.com

The Company has adopted procedures for compliance with new environmental legislation including regulations implemented pursuant to the Waste from Electrical and Electronic Equipment (WEEE) directive. The Company's business is also compliant with the Restriction of Hazardous Substances (RoHS) directive.

During the period the Company developed an executive driven strategy to improve its environmental performance. The strategy focuses on three core areas: Site Operations, Product and Supply Chain environmental improvements. Rollout of the strategy will commence in the first quarter of 2008.

During the period the Company set environmental objectives and achieved the following outcomes:

ACTIVITY/IMPACT	OBJECTIVE	ACHIEVED	IN PROGRESS	NOT ACHIEVED
Environmental Management System (EMS)				
1. Pace Environmental strategy	Develop executive driven environmental strategy	✓		
Premises, Energy, Air Emissions & Resource Consumption				
2. Reduction of STB power consumption	75% of products destined for EU market EU Code of Conduct compliant	✓		
3. Electricity Use	2% Reduction	✓		
Stakeholder Groups				
4. Volunteer activity	Conduct at least one Volunteer activity	✓		
5. Employee Awareness	Increase employee awareness of environmental issues relevant to Pace business		✓	
6. Reporting	Develop the annual reporting ensuring it adheres to the FTSE4GOOD (GHG protocol) reporting criteria.	✓		

The Company commissioned its seventh independent Environmental Report prepared by consultants, Trucost plc. A copy of the Group's Environmental Policy Statement and the Environmental Report for the period can be obtained from the Company Secretary and is available on the Company's website www.pacemicro.com.

Auditors

KPMG Audit Plc held office as auditors during the period. 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.pacemicro.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 23 April 2008 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 in respect of the Annual Financial Report

The directors named below each 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.

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
Robert Arthur Fleming	Non-executive Director
Marten Charles Fraser	Non-executive Director

By order of the Board

Anthony J Dixon
Company Secretary
29 January 2008

Directors' Remuneration Report

The directors present their report to shareholders on pages 20 and 26 regarding remuneration matters in respect of the 7 month period ended 31 December 2007.

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 period ending 31 December 2007 were Pat Chapman-Pincher (Chairman of the Committee), Marten Fraser and Mike McTighe (who was appointed in July 2007). For guidance, the Committee makes use of surveys of executive pay and knowledge of market rates. The Committee was assisted in its consideration of remuneration matters by New Bridge Street Consultants, who gave advice regarding directors' and senior executive remuneration during the year. New Bridge Street Consultants 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 options. The objective of this policy is to provide rewards and incentives that reflect corporate and individual performance and align management's objectives with those of shareholders.

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 2007.

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 the rates of salary 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 such review.

Performance Bonus

The Company established a non-pensionable performance-related bonus scheme for the executive directors and other key members of management for the 7 months ended 31 December 2007, which was based on the successful achievement of corporate and individual objectives. The corporate objectives were linked to the interests of shareholders and the key measure therefore was the profitability of the Group for the full financial year. Achievement of the bonus was dependent on the Group's pre-tax profits (before certain exceptional items) exceeding £4 million with the capacity to earn additional bonus increments upon achievement of higher profit targets up to an initial ceiling of £12 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 100% of basic annual salary notwithstanding that the bonus was referable to a seven month financial period. The Committee, having regard to the exceptional performance during the period, determined to award maximum bonus to each of the executive directors.

In respect of the current financial year the Committee has conducted a review of incentive provision for executive directors and senior executives with assistance from New Bridge Street Consultants. As a result it is proposed to introduce a new performance related bonus scheme. It is envisaged that the new bonus scheme will still have performance measures linked to profitability of the Group for the full financial year. These performance measures for the 2008 financial year will be disclosed in the 2008 Diectors' Remuneration Report. The ceiling for such bonus payments will be raised to 150% of annual salary and one third of any bonus will be payable in deferred forfeitable shares purchased in the market. These will normally vest after a further two years.

Subject to shareholder approval for, and completion of, the proposed acquisition of the Set-Top Box and Connectivity Solutions business of Royal Philips, the Committee is also minded to put in place a special integration bonus element for certain senior executives and managers (including the executive directors) who are directly involved in the integration of this business within the Group. If implemented, this bonus element would only be earned on the achievement of margin improvements and other relevant targets both within the new business and the enlarged Group as a whole. The maximum payable under this special integration bonus to any individual employee would be 50% of annual salary.

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 7 months ending 31 December 2007, 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 Schemes

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 schemes have been established by the Company.

A regular savings scheme (the "Sharesave Scheme"), 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 Scheme (the "Approved Scheme") 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 Scheme, 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. At any one time the maximum award of options to any employee pursuant to the Approved Scheme is £30,000. The Company adopted its first Approved Scheme in 1996 and a new Approved Scheme at the AGM in September 2005.

An Unapproved Discretionary Scheme ("Unapproved Scheme"), which is similar to the Approved Scheme, with options usually being exercisable within three and ten years from the date of grant, although certain rules of the Approved Scheme are not included e.g. the exclusion of employees who have a material interest in the Company. The Company adopted its first Unapproved Scheme in 1996 and a new Unapproved Scheme at the AGM in September 2005. The maximum award of options under the Unapproved Scheme 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 Schemes and the Unapproved Schemes, 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 Scheme and 1996 Unapproved Scheme 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 Schemes 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 previous 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 period no discretionary options were granted to the executive directors.

These options are normally 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 and in the event that there is alteration of the financial years relevant to the options, the Committee has discretion to make appropriate adjustment to the performance conditions.

In respect of any options to be granted during the current financial year, the Committee proposes to adopt a similar approach regarding the setting of performance targets but will have regard to the target growth in earnings of the Group over the subsequent three financial years in order to ensure that targets are sufficiently stretching.

In addition, 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 Sharesave Scheme rules and is designed to satisfy the US Internal Revenue Service requirements for such saving-for-shares plans.

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 section 309B of the Companies Act 1985.

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 on pages 24 and 25.

Directors' Remuneration

Total directors' remuneration in respect of qualifying services for the 7 months ended 31 December 2007 was as follows:

	7 months 31 Dec 2007 £000	12 months 2 Jun 2007 £000
Fees	116	203
Salaries, benefits in kind and termination payments	487	706
Performance-related bonuses	710	426
Pension contributions	62	76
	1,375	1,411

The remuneration of individual directors in respect of qualifying services for 7 months ended 31 December 2007 is set out in the table below:

	Salaries and fees	Performance bonus	Benefits in kind	Total remuneration		Pension contributions	
				7months 31 Dec 2007	12 months 2 Jun 2007	7months 31 Dec 2007	12months 2 Jun 2007
Executive Directors	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Neil Gaydon	200	325	–	525	569	28	41
David McKinney	117	185	–	302	189	16	16
Stuart Hall	125	200	45	370	61	18	5
	442	**710**	**45**	**1,197**	**819**	**62**	**62**
Non-executive Directors							
Mike McTighe	58	–	–	58	100	–	–
Pat Chapman-Pincher	20	–	–	20	33	–	–
Robert Fleming	18	–	–	18	37	–	–
Marten Fraser	20	–	–	20	33	–	–
	558	**710**	**45**	**1,313**	**1,022***	**62**	**62***

*Figures for the financial year ended 2 June 2007 exclude remuneration of £313,000 and pension contributions of £14,000 for former director David Brocksom.

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 2007 and at the beginning of the period are set out below:

	31 December 2007 Shares			2 June 2007 Shares		
	Beneficial	Non Beneficial	Under option	Beneficial	Non Beneficial	Under option
Pat Chapman-Pincher	–	–	–	–	–	–
Robert Fleming	**8,850,990**	**29,188**	–	8,850,990	29,188	–
Marten Fraser	**20,000**	–	–	20,000	–	–
Neil Gaydon	**41,684**	–	**1,983,652**	41,684	–	2,424,638
Stuart Hall	**12,739**	–	**557,599**	12,739	–	546,075
David McKinney	**15,000**	–	**777,307**	15,000	–	773,159
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 2007 and 29 January 2008.

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 3 June 2007	Number of options Granted	Exercised	Lapsed	At 31 Dec 2007	Exercise Price	Exercise Period From	To
Neil Gaydon								
Approved Scheme	3,498	–	–	–	**3,498**	857.5p	17.07.03	16.07.10
1996 Unapproved Scheme	75,000	–	75,000	–	–	64.0p	24.09.01	23.09.08
1996 Unapproved Scheme	75,000	–	–	–	**75,000**	200.0p	07.07.02	06.07.09
1996 Unapproved Scheme	250,000	–	–	–	**250,000**	74.25p	02.08.08	01.08.15
2000 Unapproved Scheme	7,023	–	7,023	–	–	20.0p	21.01.04	20.01.13
2000 Unapproved Scheme	80,000	–	60,000	–	**20,000**	51.0p	17.08.05	16.08.14
2000 Unapproved Scheme	422,208	–	298,963	–	**123,245**	20.0p	21.01.04	20.01.13
2005 Unapproved Scheme	600,000	–	–	–	**600,000**	63.5p	18.04.09	17.04.16
2005 Unapproved Scheme	902,127	–	–	–	**902,127**	58.75p	02.10.09	01.10.16
Sharesave Scheme	9,782	–	–	–	**9,782**	46.00p	01.12.09	30.05.10
David McKinney								
2005 Approved Scheme	47,430	–	–	–	**47,430**	63.25p	22.01.09	21.01.16
2005 Unapproved Scheme	202,570	–	–	–	**202,570**	63.25p	22.01.09	21.01.16
2005 Unapproved Scheme	510,638	–	–	–	**510,638**	58.75p	02.10.09	01.10.16
Sharesave Scheme	12,521	–	–	–	**12,521**	46.00p	01.12.09	30.05.10
Sharesave Scheme	–	4,148	–	–	**4,148**	82.00p	01.10.10	31.03.11
Stuart Hall								
2005 Approved Scheme	40,955	–	–	–	**40,955**	73.25p	02.04.10	01.04.17
2005 Unapproved Scheme	505,120	–	–	–	**505,120**	73.25p	02.04.10	01.04.17
Sharesave Scheme	–	11,524	–	–	**11,524**	82.00p	01.10.10	31.03.11

On 8 August 2007 Neil Gaydon exercised and sold options over 440,986 shares under the 1996 Unapproved Scheme and the 2000 Unapproved Scheme. The share price at this date was 108p, giving a gain of £336,467.

The mid-market price of shares in the Company on 17 December 2007 (the last dealing day before the financial year end and prior to the suspension of trading in the Company's shares as a result of the Company's announcement of the proposed acquisition of the set top box and connectivity solutions business of Royal Philips) was 91.25p. The lowest and highest closing mid-market prices of shares in the Company during the period were 82.50p and 130.50p respectively.

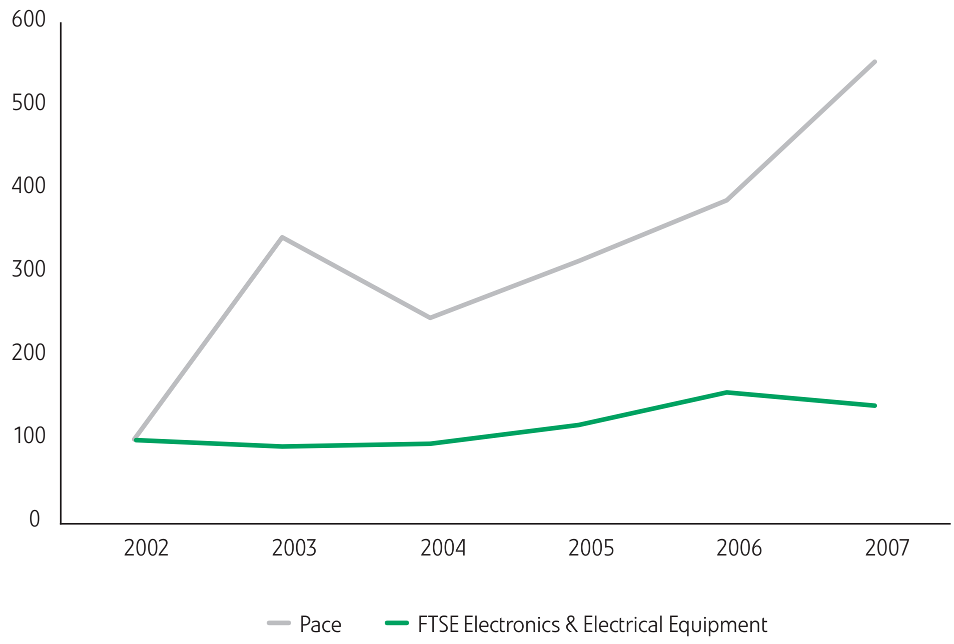
Information concerning the performance conditions attached to the above options is contained on pages 21 and 22.

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 share options granted under the Company's Share Option Schemes. No shares were acquired by the Trust during the year.

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 2007 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
29 January 2008

Statement of directors' responsibilities in respect of the Report of the Directors and the financial statements

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

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

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 that period; 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 judgments 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 a 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 Micro Technology plc website (www.pacemicro.com).

Independent auditors' report to the members of Pace Micro Technology plc

We have audited the group and parent company financial statements (the ''financial statements'') of Pace Micro Technology plc for the 7 months ended 31 December 2007 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 27.

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 Coporate 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 responsilities 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 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 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 2007 and of its profit for the 7 months 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 2007;
- 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 Auditor
29 January 2008

Contents

Consolidated Income Statement
For the 7 months ended 31 December 2007

	Note	**7 months ended 31 Dec 2007 £000**	52 weeks ended 2 June 2007 £000
Revenue	3	**249,875**	386,513
Cost of sales		**(199,040)**	(324,865)
Gross profit		**50,835**	61,648
Administrative expenses:			
Research and Development expenditure		**(19,293)**	(28,949)
Other administrative expenses:			
Before exceptional items		**(15,656)**	(24,379)
Exceptional items	5	**-**	(1,208)
Total Administrative expenses		**(34,949)**	(54,536)
Operating profit		**15,886**	7,112
Finance income	6	**53**	138
Finance expenses	6	**(589)**	(2,325)
Profit before tax		**15,350**	4,925
Tax (charge)/credit	8	**(935)**	1,841
Profit after tax		**14,415**	6,766
Attributable to:			
Equity holders of the Company		**14,415**	6,766
Basic earnings per ordinary share	9	**6.3p**	3.0p
Diluted earnings per ordinary share	9	**6.1p**	3.0p

Consolidated Balance Sheet
At 31 December 2007

	Note	31 Dec 2007 £000	2 June 2007 £000
Assets			
Non Current Assets			
Property, plant and equipment	10	**8,621**	6,508
Intangible assets – goodwill	10	**9,436**	9,436
Intangible assets – development expenditure	10	**15,882**	13,670
Available for sale financial assets	11	**349**	349
Deferred tax assets	12	**5,059**	4,968
Total Non Current Assets		**39,347**	34,931
Current Assets			
Inventories	13	**28,668**	25,268
Trade and other receivables	14	**102,382**	52,563
Cash and cash equivalents		**-**	12,049
Total Current Assets		**131,050**	89,880
Total Assets		**170,397**	124,811
Equity			
Issued capital	19	**11,684**	11,659
Share premium	20	**36,885**	36,751
Translation reserve		**425**	227
Retained earnings	21	**18,608**	2,300
Total Equity		**67,602**	50,937
Liabilities			
Non Current Liabilities			
Interest bearing loans and borrowings	16	**-**	99
Provisions	18	**12,487**	9,646
Total Non Current Liabilities		**12,487**	9,745
Current Liabilities			
Trade and other payables	15	**72,625**	59,368
Current tax liabilities		**460**	282
Interest bearing loans and borrowings	16	**12,094**	60
Provisions	18	**5,129**	4,419
Total Current Liabilities		**90,308**	64,129
Total Liabilities		**102,795**	73,874
Total Equity and Liabilities		**170,397**	124,811

These financial statements were approved by the Board of Directors on 29 January 2008 and were signed on its behalf by:

Neil Gaydon Chief Executive Officer
Stuart Hall Chief Financial Officer

Company Balance Sheet
At 31 December 2007

	Note	31 Dec 2007 £000	2 June 2007 £000
Assets			
Non Current Assets			
Property, plant and equipment	10	**7,335**	5,229
Intangible assets – development expenditure	10	**15,882**	13,670
Investments in group and other companies	11	**9,749**	9,749
Deferred tax assets	12	**5,059**	4,968
Total Non Current Assets		**38,025**	33,616
Current Assets			
Inventories	13	**28,668**	25,268
Trade and other receivables	14	**102,052**	52,099
Cash and cash equivalents		**-**	11,275
Total Current Assets		**130,720**	88,642
Total Assets		**168,745**	122,258
Equity			
Issued capital	19	**11,684**	11,659
Share premium	20	**36,885**	36,751
Retained earnings	21	**13,964**	(2,401)
Total Equity		**62,533**	46,009
Liabilities			
Non Current Liabilities			
Provisions	18	**12,487**	9,646
Total Non Current Liabilities		**12,487**	9,646
Current Liabilities			
Trade and other payables	15	**74,976**	61,820
Current tax liabilities		**474**	364
Interest bearing loans and borrowings	16	**13,146**	–
Provisions	18	**5,129**	4,419
Total Current Liabilities		**93,725**	66,603
Total Liabilities		**106,212**	76,249
Total Equity and Liabilities		**168,745**	122,258

These financial statements were approved by the Board of Directors on 29 January 2008 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	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 3 June 2006	11,576	36,246	240	(5,595)	42,467
Profit for the period	–	–	–	6,766	6,766
Currency translation adjustments	–	–	(13)	–	(13)
Total income and expense for the period	–	–	(13)	6,766	6,753
Employee share incentive charges	–	–	–	684	684
Movement in employee share trusts	–	–	–	445	445
Issue of shares	83	505	–	–	588
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**

Company	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 3 June 2006	11,576	36,246	–	(10,240)	37,582
Profit for the period (Total income and expense)	–	–	–	6,710	6,710
Employee share incentive charges	–	–	–	684	684
Movement in employee share trusts	–	–	–	445	445
Issue of shares	83	505	–	–	588
Balance at 2 June 2007	11,659	36,751	–	(2,401)	46,009
Profit for the period (Total income and expense)	–	–	–	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**

Consolidated Cash Flow Statement
For the 7 months ended 31 December 2007

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Cash flows from operating activities		
Profit before tax	**15,350**	4,925
Adjustments for:		
Share based payments charge	**570**	684
Depreciation of property, plant and equipment	**2,483**	4,277
Amortisation and impairment of development expenditure	**9,958**	14,172
Loss on sale of property, plant and equipment	**136**	90
Net financial charge	**536**	2,187
Movement in trade and other receivables	**(49,874)**	(9,966)
Movement in trade and other payables	**12,828**	13,794
Movement in inventories	**(3,400)**	9,524
Movement in provisions	**3,551**	(826)
Cash (used in)/generated from operations	**(7,862)**	38,861
Interest paid	**(468)**	(2,361)
Tax paid	**(242)**	(124)
Net cash (used in)/generated from operating activities	**(8,572)**	36,376
Cash flows from investing activities		
Purchase of property, plant and equipment	**(4,258)**	(3,256)
Development expenditure	**(12,170)**	(16,556)
Interest received	**53**	138
Net cash used in investing activities	**(16,375)**	(19,674)
Cash flows from financing activities		
Proceeds from issue of share capital	**159**	588
Proceeds from exercise of employee share options using shares held in trust	**717**	445
Repayment of loans	**(159)**	(55)
Net cash generated from financing activities	**717**	978
Net change in cash and cash equivalents	**(24,230)**	17,680
Cash and cash equivalents at start of period	**12,049**	(5,880)
Effect of exchange rate fluctuations on cash held	**87**	249
Cash and cash equivalents at end of period	**(12,094)**	12,049

Company Cash Flow Statement

For the 7 months ended 31 December 2007

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Cash flows from operating activities		
Profit before tax	**15,032**	4,629
Adjustments for:		
Share based payments charge	**570**	684
Depreciation of property, plant and equipment	**2,217**	3,795
Amortisation of development expenditure	**9,958**	14,172
Loss on sale of property, plant and equipment	**96**	78
Net financial income	**534**	2,169
Movement in trade and other receivables	**(49,907)**	1,239
Movement in trade and other payables	**12,612**	18,597
Movement in inventories	**(3,400)**	(6,108)
Movement in provisions	**3,551**	(826)
Cash (used in)/generated from operations	**(8,737)**	38,429
Interest paid	**(468)**	(2,361)
Tax paid	**–**	–
Net cash (used in)/generated from operating activities	**(9,205)**	36,068
Cash flows from investing activities		
Purchase of property, plant and equipment	**(3,979)**	(2,754)
Development expenditure	**(12,170)**	(16,556)
Interest received	**56**	136
Net cash used in investing activities	**(16,093)**	(19,174)
Cash flows from financing activities		
Proceeds from issue of share capital	**159**	588
Proceeds from exercise of employee share options using shares held in trust	**717**	445
Net cash generated from financing activities	**876**	1,033
Net change in cash and cash equivalents	**(24,442)**	17,927
Cash and cash equivalents at start of period	**11,275**	(6,897)
Effect of exchange rate fluctuations on cash held	**21**	245
Cash and cash equivalents at end of period	**(13,146)**	11,275

1 BASIS OF PREPARATION

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.

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 37 to 40. 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 sources 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, continues to monitor the potential re-interpretation by European Union customs authorities of customs regulations that could result in the extension of import duties to interactive set-top boxes manufactured outside, but imported into, the EU. No final decision has been made so it remains impossible to quantify any potential impact. However, Pace has analysed its options against the range of possible outcomes and has plans to manage these outcomes.

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 in place borrowing facilities to January 2010, based upon 85% of relevant trade debtors, as adjusted, up 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 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 these financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS
The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted 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 annual financial statements were previously drawn up to the Saturday nearest to 31 May. The Pace Board resolved on 23 July 2007 to change its accounting reference date from 31 May to 31 December. Accordingly the current year's financial statements are for the 7 months ended 31 December 2007 and the previous year's financial statements are for the 52 weeks ended 2 June 2007.

BASIS OF CONSOLIDATION
The Group financial statements consolidate those of the Company and of its subsidiary undertakings (note 11) drawn up to 31 December 2007. 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.

2 ACCOUNTING POLICIES
The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. In these financial statements the following Adopted IFRSs are effective for the first time:

* The adoption of IFRS 7 in relation to the disclosures on the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments to which the Group is exposed during the period and at the reporting date, and how the entity manages those risks.
* Amendment to IAS 1 for Capital Disclosures.

The adoption of IFRS 7 Financial Instruments. Disclosures and amendment to IAS 1 for Capital Disclosures have not had a significant impact except for additional disclosure requirements.

There are a number of new standards and interpretations issued but not yet effective which the Group has not applied in these financial statements, including IFRS 8 Operating Segments. It is anticipated that the adoption of these standards and interpretations would not have a significant impact on the financial statements of the Group.

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.

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.

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 obsolete, 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.

None of the Group's derivative contracts qualify for hedge accounting and are valued (ie marked to market) at the balance sheet date and any resulting profits or losses are taken to the income statement.

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 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 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 and the Pace Micro Technology QUEST 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.

INVESTMENT INCOME

Investment 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.

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 continuing operations and its associated business risks and consider that the continuing operations should be reported as a single business segment. The Directors 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	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
United Kingdom	**48,451**	69,487
Continental Europe	**41,107**	62,693
Far East and Australasia	**15,586**	30,888
North America	**144,731**	223,239
Rest of the World	**-**	206
	249,875	386,513

All revenue originates in the United Kingdom from continuing operations and there is no material inter-segment turnover. Predominantly all profits, capital expenditure and assets arise or are held in the United Kingdom.

4 EXPENSES AND AUDITORS' REMUNERATION

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Fees payable to the Company's auditors for the audit of:		
Company's annual accounts	**130**	155
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	**8**	8
other services relating to taxation	**28**	16
other services pursuant to interim reporting	**20**	40
services relating to corporate restructuring	**-**	200
Depreciation of plant, property and equipment		
owned	**2,483**	4,277
Other operating lease rental		
land and buildings	**808**	1,247
motor vehicles	**15**	101
Loss on disposal of plant, property and equipment	**136**	90
Net foreign exchange gains recognised within operating profit/loss	**198**	439

5 EXCEPTIONAL ITEMS

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Restructuring and reorganisation costs	**–**	1,208

The restructuring and reorganisation charges in the previous period related to a restructuring programme within the Group.

6 FINANCE INCOME/COSTS

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Finance income - Interest on bank deposits	**53**	138
Borrowing costs:		
Bank loans and overdrafts	**589**	1,463
Other	**–**	862
Finance costs	**589**	2,325

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	
	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Research and development	**411**	403	**294**	300
Administration	**129**	140	**99**	111
Sales and marketing	**22**	24	**19**	20
Manufacturing and operations	**29**	47	**24**	36
	591	614	**436**	467
The aggregate payroll costs of these persons were as follows:				
Wages and salaries	**12,974**	25,067	**9,729**	19,177
Social security costs	**1,666**	2,190	**1,357**	1,878
Other pension costs	**580**	950	**565**	824
Share based payments (see note 24)	**570**	684	**570**	684
Redundancy costs	**99**	1,163	**99**	1,048
	15,889	30,054	**12,320**	23,611

Remuneration Of Directors
The remuneration, share options and pension entitlements of the directors are disclosed in the Remuneration Report on pages 20 to 26.

8 TAX (CHARGE)/CREDIT

The tax (charge)/credit is based on the profit for the period and comprises:	**7 months ended 31 Dec 2007 £000**	52 weeks ended 2 June 2007 £000
Current tax:		
Overseas tax charge	**(420)**	(240)
Total current tax charge	**(420)**	(240)
Deferred tax:		
Origination and reversal of timing differences (note 12)	**(1,367)**	2,081
Adjustment in respect of previous periods	**1,169**	-
Effect of change in tax rate	**(317)**	-
Total deferred tax (charge)/credit	**(515)**	2,081
Tax (charge)/credit in Consolidated Income Statement	**(935)**	1,841

Reconciliation of effective tax rate:		
Profit before tax	**15,350**	4,925
Tax using domestic corporation tax rate at 30% (2 June 2007: 30%)	**(4,605)**	(1,478)
Effects of:		
Expenses not deductible for tax purposes	**(391)**	(933)
Tax losses utilised in period	**–**	2,235
Brought forward unrecognised tax losses recognised in the period	**2,256**	–
Research and development tax credit	**547**	940
Overseas tax not at 30%	**(105)**	(60)
Future tax relief on exercise of share options	**511**	–
Effect of change in tax rate	**(317)**	–
Adjustments to tax charge in respect of previous periods	**1,169**	1,137
Total tax (charge)/credit	**(935)**	1,841

9 EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per share

The calculation of basic earnings per share is based on a profit for the period of £14,415,000 (year ended 2 June 2007: £6,766,000) divided by the weighted average number of ordinary shares in issue of 229,141,578 (year ended 2 June 2007: 225,501,387), excluding shares held by the Employee Benefits Trust.

Number of shares	**7 months ended 31 Dec 2007 m**	52 weeks ended 2 June 2007 m
Weighted average number of ordinary shares in issue during the year	**229.1**	225.5
Dilutive effect of options outstanding	**5.5**	1.4
Diluted weighted average number of ordinary shares in issue during the year	**234.6**	226.9

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

10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Group	Goodwill £000	Development Expenditure £000	Long Leasehold Buildings £000	Short Leasehold land and Buildings £000	Plant and machinery £000	Motor vehicles £000	Total property, plant and equipment £000
Cost							
At 4 June 2006	9,436	15,990	616	4,789	18,181	30	23,616
Exchange adjustments	–	–	–	(21)	(189)	–	(210)
Additions	–	16,556	–	43	3,213	–	3,256
Retirement of Assets	–	(9,459)	–	–	–	–	–
Disposals	–	–	–	–	(432)	–	(432)
At 2 June 2007	9,436	23,087	616	4,811	20,773	30	26,230
Exchange adjustments	–	–	31	(2)	46	–	75
Additions	–	12,170	–	2,014	2,675	8	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**	**22,242**	**38**	**29,305**
Amortisation/depreciation							
At 4 June 2006	–	4,704	265	3,687	11,963	30	15,945
Exchange adjustments	–	–	–	(20)	(138)	–	(158)
Provided in the year	–	12,470	21	242	4,014	–	4,277
Retirement of Assets	–	(9,459)	–	–	–	–	–
Impairment	–	1,702	–	–	–	–	–
Disposals	–	–	–	–	(342)	–	(342)
At 2 June 2007	–	9,417	286	3,909	15,497	30	19,722
Exchange adjustments	–	–	16	(1)	25	–	40
Provided in the period	–	9,958	12	269	2,201	1	2,483
Retirement of Assets	–	(4,198)	–	–	–	–	–
Disposals	–	–	(195)	(143)	(1,223)	–	(1,561)
At 31 December 2007	**–**	**15,177**	**119**	**4,034**	**16,500**	**31**	**20,684**
Net book amount at 3 June 2006	9,436	11,286	351	1,102	6,218	–	7,671
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**	**5,742**	**7**	**8,621**

Impairment tests for cash generating units containing goodwill

All the goodwill relates to intellectual property and know-how acquired with the purchase of Xcom Multimedia Communications SA in February 2001. These intellectual property and know-how assets are used as an integral part of the development of products which, to date, have been sold mainly into Pace's Continental European markets. Accordingly, for impairment testing purposes to date 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

Impairment tests for cash generating units containing goodwill

The recoverable amount of the above unit including the goodwill is based upon value in use calculations 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, budget and a 3 year forecast, reflecting known purchase orders, sales contracts and estimates relating to the net result from planned products launches. Thereafter, a growth rate of 1% on sales and 2% in overheads has been used to extrapolate results to cover 5 years in total. A discount rate of 12% has been used in discounting the projected cash flows.

Development expenditure for the Group and Company comprises a number of projects at varying levels of completion. Such expenditure will be amortised from the date of commercial launch in line with the accounting policies set out in note 2.

Retirements of development expenditure represent the deletions of the cost and related amortisation at the end of products commercial lives.

	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 4 June 2006	15,990	4,441	14,349	30	18,820
Additions	16,556	28	2,726	–	2,754
Disposals	(9,459)	–	(408)	–	(408)
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**
Amortisation/depreciation					
At 4 June 2006	4,704	3,369	9,073	30	12,472
Provided in the year	12,470	227	3,568	–	3,795
Retirement of Assets	(9,459)	–	–	–	–
Impairment	1,702	–	–	–	–
Disposals	–	–	(330)	–	(330)
At 2 June 2007	9,417	3,596	12,311	30	15,937
Provided in the period	9,958	265	1,951	1	2,217
Retirement of Assets	(4,198)	-	-	-	-
Disposals	-	(143)	(1,222)	-	(1,365)
At 31 December 2007	**15,177**	**3,718**	**13,040**	**31**	**16,789**
Net book amount at 3 June 2006	11,286	1,072	5,276	–	6,348
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**

11 INVESTMENTS IN GROUP AND OTHER COMPANIES

	Available for sale financial assets £000
Group	
Cost at 4 June 2006 and 2 June 2007 and 31 December 2007	1,479
Provision at 4 June 2006, 2 June 2007 and 31 December 2007	(1,130)
Net book value at 3 June 2006, 2 June 2007 and 31 December 2007	**349**

	Intra-group loans £000	Shares in group undertakings £000	Available for sale financial assets £000	Total £000
Company				
Cost at 4 June 2006 and 2 June 2007 and 31 December 2007	65,945	6,038	899	72,882
Provision at 4 June 2006 and 2 June 2007 and 31 December 2007	(62,583)	–	(550)	(63,133)
Net book value at 3 June 2006, 2 June 2007 and 31 December 2007	**3,362**	**6,038**	**349**	**9,749**

At 31 December 2007 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***	Dormant	100%	UK	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
**** Denoted company owned by Pace Americas Limited

Each of the subsidiary undertakings listed above have 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.

All of the deferred tax assets were available for offset against deferred tax liabilities. The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12 Income Taxes) during the period are shown below:

Group and Company	Property, plant & equipment £000	Trading losses £000	Development costs (IAS 38) £000	Share Based Payments £000	Total £000
Recognised asset					
At 2 June 2007 (30%)	2,678	6,431	(4,141)	–	4,968
Credited/(charged) to income statement	42	(1,981)	1,230	511	(198)
Credited to equity/reserves	–	–	–	649	649
At 31 December 2007 (30%)	**2,720**	**4,450**	**(2,911)**	**1,160**	**5,419**
Effect of change in tax rate – taken to income statement	(181)	(296)	194	(34)	(317)
Effect of change in tax rate – taken to equity/reserves	–	–	–	(43)	(43)
At 31 December 2007 (28%)	**2,539**	**4,154**	**(2,717)**	**1,083**	**5,059**

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

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation tax will reduce from 30 per cent to 28 per cent. This change has now been enacted. Based on the reduced Corporation tax rate of 28 per cent, the Group deferred tax asset at 31 December 2007 has been recognised at 28 per cent as it is expected this will be the rate applicable on the reversal of the timing differences above.

13 INVENTORIES

	Group		Company	
	31 Dec 2007 £000	2 June 2007 £000	**31 Dec 2007 £000**	2 June 2007 £000
Raw materials and consumable stores	**3,589**	7,290	**3,589**	7,290
Finished goods	**25,079**	17,978	**25,079**	17,978
	28,668	25,268	**28,668**	25,268

The cost of inventory expensed to the income statement in the period was £197,902,000 (year ended 2 June 2007: £322,873,000)

14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 Dec 2007 £000	2 June 2007 £000	**31 Dec 2007 £000**	2 June 2007 £000
Trade receivables	**99,508**	47,402	**99,475**	47,356
Other receivables	**1,651**	3,381	**1,563**	3,238
Prepayments and accrued income	**1,223**	1,780	**1,014**	1,505
	102,382	52,563	**102,052**	52,099

15 TRADE AND OTHER PAYABLES

	Group		Company	
	31 Dec 2007	2 June 2007	**31 Dec 2007**	2 June 2007
	£000	£000	**£000**	£000
Trade payables	**59,620**	50,044	**59,435**	49,536
Amounts owed to subsidiary undertakings	**–**	–	**4,231**	4,311
Social security and other taxes	**586**	521	**437**	370
Other payables	**853**	528	**483**	186
Accruals	**11,566**	8,275	**10,392**	7,417
	72,625	59,368	**74,978**	61,820

16 INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	31 Dec 2007	2 June 2007	**31 Dec 2007**	2 June 2007
	£000	£000	**£000**	£000
Borrowings consist mainly of bank loans and overdrafts falling due:				
Within one year	**(12,094)**	60	**(13,146)**	–
After one and within two years	**–**	60	**–**	–
After two and within three years	**–**	39	**–**	–
	(12,094)	159	**(13,146)**	–

The banking facilities of £35 million (2 June 2007: £35 million) are available until January 2010. The facility is based on a percentage drawdown of appropriate trade receivables as adjusted and is secured by a fixed and floating charge over the assets of Pace Micro Technology 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 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)**
At 2 June 2007:			
Sterling	3,351	2	3,353
US Dollar	4,254	–	4,254
Euro	4,344	1	4,345
Other	97	–	97
Total	12,046	3	12,049

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

(b) Interest rate risk profile of bank loans

Currency	**Floating rate £000**	**Interest free £000**	**Total £000**
At 31 December 2007:			
Euro	**–**	**–**	**–**
	–	**–**	**–**
At 2 June 2007:			
Euro	159	–	159
	159	–	159

The interest rate on Euro floating rate financial liabilities is linked to the relevant bank base rate.

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS continued

(c) 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)			
	US Dollar	**Euro**	**Other**	**Total**
Functional currency of group operation	**£000**	**£000**	**£000**	**£000**
At 31 December 2007:				
Sterling	**2,229**	**15,897**	**74**	**18,200**
Euro	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Total	**2,229**	**15,897**	**74**	**18,200**
At 2 June 2007:				
Sterling	(8,349)	11,635	(698)	2,588
Euro	–	–	–	–
Other	–	(12)	–	(12)
Total	(8,349)	11,623	(698)	2,576

(d) 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 6 months.

Outstanding currency derivatives:

	Sell Currency	Buy Currency	Principal Amount	Average Rate	Maturity
At 31 December 2007:	**Euro**	**US Dollar**	**$64.8m**	**1.40**	**Jan 08-Apr 08**
At 2 June 2007:	Euro	US Dollar	$63.7m	1.34	Jun 07-Feb 08

The Group's derivatives contracts do not qualify for hedge accounting and are valued (ie marked to market) at the balance sheet date and accordingly £1.7m (2 June 2007: £87,652) of losses have been taken to the income statement.

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS continued

(e) 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 2007 85% was within terms (2 June 2007: 87%). The balance was less than 30 days past due (2 June 2007: 13%).

(f) Liquidity risk

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

(g) 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 the Great British Pound against these would have an adverse impact of £401,000 on the profit reported in seven month period ended 31 December 2007 (year ended 2 June 2007: £6,000).

There were no significant foreign currency exposures on equity from any foreign currency denominated asset or liabilities in either period under review.

(h) 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	Total £000
Group and Company			
At 2 June 2007	7,473	6,592	14,065
Net charge for the period	2,540	5,541	8,081
Utilised	(805)	(3,725)	(4,530)
At 31 December 2007	**9,208**	**8,408**	**17,616**
Due within one year	-	5,129	5,129
Due after one year	9,208	3,279	12,487

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.

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 2007		2 June 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	233,682,856	11,684	233,189,995	11,659

During the year, the Company allotted Ordinary shares as follows:	Number	Nominal value £000	Consideration £000
Employee share option scheme (32 pence)	3,474	-	1
Employee share option scheme (56 pence)	104,296	5	58
Employee share option scheme (48 pence)	93,064	5	44
Employee share option scheme (59.5 pence)	554	-	-
Employee share option scheme (49 pence)	1,252	-	1
Employee share option scheme (46 pence)	260	-	-
Employee share option scheme (42.5 pence)	35,000	2	15
Employee share option scheme (15.75 pence)	254,961	13	40
	492,861	**25**	**159**

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

19 SHARE CAPITAL continued

Number of ordinary shares subject to option	Exercise period	Price per share pence
31,021	1 October 2007 to 31 March 2008	48.0
318,917	1 April 2008 to 30 September 2008	32.0
330,742	1 October 2008 to 31 March 2009	59.5
373,592	1 April 2009 to 30 September 2009	49.0
967,506	1 December 2009 to 30 May 2010	46.0
672,010	1 October 2010 to 31 March 2011	82.0
225,000	7 July 2002 to 6 July 2009	200.0
307,480	11 January 2003 to 10 January 2010	599.5
82,437	17 July 2003 to 16 July 2010	857.5
21,927	29 January 2004 to 28 January 2011	610.0
216,000	24 July 2005 to 23 July 2011	375.0
160,623	24 July 2004 to 23 July 2011	375.0
22,463	18 January 2005 to 17 January 2012	357.0
241,250	22 October 2003 to 21 October 2012	15.75
20,000	22 October 2005 to 21 October 2012	15.75
100,000	22 October 2006 to 21 October 2012	15.75
70,000	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
62,500	7 October 2007 to 6 October 2014	48.0
87,500	7 October 2005 to 6 October 2014	48.0
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
75,000	26 April 2010 to 25 April 2017	73.25
226,663	3 March 2008 to 30 May 2008	58.0
628,746	1 November 2010 to 31 October 2017	97.75
9,247,890		

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 21.

20 SHARE PREMIUM ACCOUNT

Group and Company	**7 months ended 31 Dec 2007 £000**	Year ended 2 June 2007 £000
At begining of period	**36,751**	36,246
Premium on allotments	**134**	505
At end of period	**36,885**	36,751

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

21 RETAINED EARNINGS

Group	**7 months ended 31 Dec 2007 £000**	Year ended 2 June 2007 £000
At begining of period	**2,300**	(5,595)
Retained profit for the period	**14,415**	6,766
Deferred tax adjustment	**606**	–
Employee share incentive charges	**570**	684
Settlement of share options from employee share trusts	**717**	445
At end of period	**18,608**	2,300

Company	**7 months ended 31 Dec 2007 £000**	Year ended 2 June 2007 £000
At 2 June 2007	**(2,401)**	(10,240)
Retained profit for the period	**14,472**	6,710
Deferred tax adjustment	**606**	–
Employee share incentive charges	**570**	684
Settlement of share options from employee share trusts	**717**	445
At 31 December 2007	**13,964**	(2,401)

Own shares held

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

At 31 December 2007 the Pace Micro Technology plc Employee Benefits held 4,535,955 (2 June 2007: 5,954,678) shares in the Company which cost £18,996,738 (2 June 2007: £20,066,470). 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.

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**
375,000	24 September 2001 to 23 September 2008	64.0
360,919	26 January 2002 to 25 January 2009	84.5
202,900	7 July 2002 to 6 July 2009	200.0
25,090	17 July 2001 to 16 July 2010	857.5
114,903	29 January 2002 to 28 January 2011	610.0
123,245	21 January 2004 to 20 January 2013	20.0
622,022	26 August 2004 to 25 August 2013	51.0
426,250	17 August 2005 to 16 August 2014	51.0
775,000	2 August 2008 to 16 August 2015	74.25
600,000	18 April 2009 to 17 April 2016	63.5
3,059,704	2 October 2009 to 1 October 2016	58.75
546,075	3 April 2010 to 2 April 2017	73.25
7,231,108		

22 PROFIT FOR THE PERIOD

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 £14,472,000 (year ended 2 June 2007: profit after tax of £6,710,000).

23 CAPITAL COMMITMENTS

	Group and Company	
	31 Dec 2007 £000	2 June 2007 £000
Contracted but not provided for	**1,058**	996

24 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 period was £580,000 (year ended 2 June 2007: £950,000). At 31 December 2007 contributions of £Nil (2 June 2007: £Nil) were outstanding.

Share based payments
Details of the Company's share option schemes are included in notes 19 and 21 and the Remuneration Report. The number and weighted average exercise price of share options is as follows:

	Average Exercise Price 31 Dec 2007	**Weighted Number of Options 31 Dec 2007**	Average Exercise Price 2 June 2007	Weighted Number Of Options 2 June 2007
Outstanding at the beginning of the period	**91p**	**18,492,508**	134p	16,383,227
Granted during the period	**89p**	**1,335,787**	59p	9,029,834
Forfeited during the period	**140p**	**(1,454,189)**	241p	(3,852,208)
Exercised during the period	**45p**	**(1,895,108)**	36p	(3,068,345)
Outstanding at the end of the period	**91.7p**	**16,478,998**	91p	18,492,508
Exercisable at the end of the period	**168p**	**3,836,317**	153p	5,545,647

Outstanding options were as follows

Range of exercise prices (pence)	Number at 31 Dec 2007	Weighted average remaining contractual life months	Weighted average exercise price
14.5p to 20p	484,495	58	17p
32p to 49.5p	1,841,036	28	44p
51p to 75p	11,112,969	92	61p
78p to 97.75p	1,661,675	95	89p
190p to 200p	427,900	18	200p
357p to 375p	399,086	43	374p
599.5p to 610p	444,310	28	603p
857.5p to 945p	107,527	30	858p
	16,478,998	**79**	

24 EMPLOYEE BENEFITS continued

The weighted average exercise price of options granted in the period was 89p (year ended 31 December 2007: 59p).

The weighted average fair value at the measurement date of options granted in the period was 37p (year ended 31 December 2007: 22p).

The weighted average exercise price at the date of exercise for options exercised in the period was 45p (year ended 31 December 2007: 36p).

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.

	31 Dec 2007	2 June 2007
Average share price (pence)	**97.0**	60.0
Weighted average exercise price (pence)	**91.7**	91.0
Expected volatility (%)	**50%**	60%
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 £ 570,000 (year ended 31 December 2007: £684,000) which is comprised entirely of equity settled transactions.

25 LEASING COMMITMENTS

	Group		**Company**	
	31 Dec 2007 £000	2 June 2007 £000	**31 Dec 2007 £000**	2 June 2007 £000
Land and buildings				
Within one year	**1,097**	102	**812**	72
Between two and five years	**3,306**	1,039	**2,774**	94
In five years or more	**2,712**	5,688	**2,712**	5,688
	7,115	6,829	**6,298**	5,854
Other				
Within one year	**4**	10	**4**	10
Between two and five years	**-**	42	**-**	42
	4	52	**4**	52
	7,119	6,881	**6,302**	5,906

26 CONDITIONAL ACQUISITION

The Company has entered into a conditional agreement to acquire the set-top box and connectivity solutions business ("the Philips STB and CS Business") of Royal Philips Electronics ("Philips") (the "Acquisition"). The Philips STB and CS Business 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.

The proposed transaction values the business at up to €95.0 million (£68.0m). The consideration for the Acquisition will be satisfied by the issue of 68.0m new Pace shares to Philips at completion and up to a further 1.9m new Pace shares on or shortly after completion together with a further €5m (£3.6m) in cash over 3 years from completion. At completion, Philips will hold approximately 22.5% per cent. of the enlarged share capital of Pace, of which 17% is subject to a one year lock-in from the date of completion. There is also a cash adjustment mechanism based on the net indebtedness and working capital position of the Philips STB and CS Business at completion. The agreement is conditional upon, inter alia, the conclusion of the consultation procedure by the Philips STB and CS Business with its Works Council in relation to the Acquisition, certain anti-trust approvals being obtained and Pace shareholders approving the Acquisition.

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.

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 transaction between the Company and its subsidiaries consist mainly of payments by the Company for engineering and administrative support services provided by Pace Americas Limited, Pace Europe SAS and Pace Micro Technology (India) Private Ltd . Total recharges of £6.3m 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 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 £570,000 made in the period, 30% relates to options granted to the executive directors.

29 POST BALANCE SHEET EVENTS

There are no significant or disclosable post balance sheet events except as referred to in note 12 and note 26 to the financial statements.

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
Robert Arthur Fleming	Non-executive Director
Marten Charles Fraser	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
Hoare Govett Limited
250 Bishopsgate
London
EC2M 4AA

Five Year Record and Shareholder Information

	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	Year ended 30 May 2004 £000
Revenue	**249,875**	386,513	178,095	253,326	239,949
Profit/(loss) before tax**	**15,346**	4,925	(27,450)	8,963	3,880
Profit/(loss) before exceptional items and tax	**15,346**	6,133	(15,562)	9,108	5,380
Profit/(loss) after tax	**14,785**	6,766	(28,784)	13,680	8,066
Diluted EPS/(LPS)	**6.1p**	3.0p	(13.0)p	6.2p	3.6p
Diluted EPS/(LPS) before exceptional items and goodwill amortisation*	**6.1p**	3.0p	(7.6)p	6.1p	4.5p
Total equity attributable to equity holders of the parent excluding goodwill*/**	**58,166**	41,501	33,031	60,316	45,702

* The comparatives for financial year 2004 have been restated to reflect the impact of UITF38 Accounting for ESOP Trusts.

** The comparatives for 2005 (and net assets for 2004) are stated under Adopted International Financial Reporting Standards; all other figures for 2004 are stated on a UK GAAP basis.

SHAREHOLDER INFORMATION
ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at 12 noon on 23rd April 2008, 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 0871 664 0300 (calls cost 10p a minute plus network extras). 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 020 7291 3310 for an application form or visit www.mps-online.org.uk

PACE WEBSITE

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

Bringing
Technology Home

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