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Bringing Technology Home

Pace Micro Technology plc results for the half year ended 1 December 2007

29 January 2008

Saltaire, UK, 29 January 2008, Pace Micro Technology, the leading independent developer of digital TV technologies for the global payTV industry, announces its financial results for the half year ending 1 December 2007.

FOLLOWING THE CHANGE OF THE COMPANY'S YEAR END TO 31 DECEMBER, AUDITED RESULTS FOR THE SEVEN MONTH PERIOD ENDED 31 DECEMBER 2007 WERE RELEASED EARLIER TODAY.

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 1.8m set-top boxes (2006: 1.8m)

Financial Highlights

- Revenue up 5% to £190.0m (2006: £180.2m)
- Gross margin improvement to 20.7% (2006: 15.3%)
- Profit before tax of £10.6m (2006: £0.5m)
- Earnings per share of 4.6 p (2006: 0.1p)
- Net borrowings of £4.2m (Cash in hand 2 June 2007: £11.9m)

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INTERIM MANAGEMENT REPORT

Results Overview

Pace is the leading company in digital TV technology and creates products for many of the world's most successful digital payTV operators. The Company has delivered exceptional performance during the period, meeting its increased expectations, due to ongoing action to improve business efficiencies and exceptional performance in North America. At the same time, the organisational changes which are now complete have structured Pace's business around the technologies and needs of its customers, and provided Pace with a solid and sustainable platform for growth.

Product margins, execution and quality all continued to improve throughout the period and Pace has increased profit before tax to £10.6m (2006: £0.5m) on revenues of £190.0m (2006: £180.2m).

Pace's revenues remain well balanced between its markets in North America (52% of total) and European and Australasian markets (48%). Pace has continued to win new customers in both market groups while also growing market share from existing customers.

North America, the world's largest market for digital television technology, has performed strongly with shipments of 0.6m set-top boxes in the half year period (2006: 0.6m). Strengthening its US market position by investing early in next generation products, Pace has been quick to market with its new OCAP-ready CableCARD™ range to meet new US regulatory requirements for separable security in cable set-top boxes. Orders of CableCARD products have begun to increase, while demand for satellite products remained strong. Pace continued to develop and deepen its customer relationships in North America in the period and now supplies over 40 operators, including the two largest payTV organisations, DirecTV and Comcast.

Pace performed strongly in the EMEA and APAC markets, achieving a level of shipments into the EMEA region of 1.0m set-top boxes (2006: 1.0m), and shipments into the APAC region of 0.2m (2006: 0.3m). Demand for HD PVR has grown and Digiturk has recently launched a HD PVR service using Pace set-top boxes, which is also the first implementation of Pace's new Irdeto conditional access / OpenTV middleware platform. As expected this platform is enabling Pace to win further new customers in these regions and in September Pace announced a business win with Multichoice in South Africa. Multichoice is typical of the customers Pace aims to 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.

Multichoice and Digiturk have extended Pace's customer-base of leading payTV operators that also 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.

Financial Review

In the half year period Pace shipped 1.8m set-top boxes (2006: 1.8m) with revenues of £190.0m (2006: £180.2m). Average selling prices rose from £98 to £103, reflecting the ongoing trend in demand for higher specification products such as HD PVR, a demand Pace has been able to meet due to its ongoing early investment in new technology. Gross margin of 20.7% shows a significant improvement from the previous period (2006: 15.3%) through thorough and close management of the business.

Overheads, excluding the impact of IAS38, were £30.2m (2006: £26.1m, excluding restructuring costs). R&D spend before capitalisation of development expenditure in line with IAS38 was £18.3m (2006: £13.5m), as Pace continued to invest in higher specification products such as HD PVR and new technologies. The IAS38 adjustment was a net credit of £1.8m (2006: net credit £1.3m) principally as a result of the investment in Multi-Dweller and retail products that are scheduled to be launched during 2008.

Profit before tax was £10.6m (2006: £0.5m). The interest charge was £0.4m (2006: £1.3m) the reduced level of charges reflecting higher levels of cash held during the period. A tax credit of £0.2m (2006: charge £0.3m) reflects overseas tax charges of £0.4m and a deferred tax credit of £0.5m (relating to the recognition of trading losses). Retained profit for the period was £10.8m (2006: £0.2m). The Board does not recommend the payment of a dividend, but is keeping the position under review.

The net working capital position at 1 December 2007 was £43.9m (2 June 2007: £30.5m). This change was due to an inventory increase of £27.1m (to facilitate December 07 shipments), debtor increase of £14.0m and creditor increase of £15.7m.

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 £4.2m (2 June 2007: net cash £11.9m).

Outlook

The Board is pleased with progress and the benefits the organisation is delivering in the form of a solid, sustainable platform for growth that has been embedded across the group.

Neil Gaydon

Chief Executive Officer

29 January 2008

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining month of the seven month financial period; and

  (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Anthony J Dixon

Company Secretary

29 January 2008

The Directors who all served throughout the period are:

- **Mike McTighe** – Chairman
- **Neil Gaydon** – Chief Executive Officer
- **Stuart Hall** – Chief Financial Officer
- **David McKinney** – Chief Operating Officer
- **Patricia Chapman-Pincher** – Non-executive director
- **Robert Fleming** – Non-executive director
- **Marten Fraser** – Non-executive director

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE 26 WEEKS ENDED 1 DECEMBER 2007

	Note	26 weeks ended 1 Dec 2007 £000	26 weeks ended 2 Dec 2006 £000	52 weeks ended 2 June 2007 £000
Revenue	2	190,043	180,217	386,513
Cost of sales		(150,680)	(152,719)	(324,865)
Gross profit		39,363	27,498	61,648
Administrative expenses:				
Research and Development expenditure		(16,426)	(12,225)	(28,949)
Other administrative expenses:				
Before exceptional items		(11,902)	(12,546)	(24,379)
Exceptional items	3	-	(884)	(1,208)
Total Administrative expenses		(28,328)	(25,655)	(54,536)
Operating profit		11,035	1,843	7,112
Finance income		49	53	138
Finance expenses		(444)	(1,384)	(2,325)
Profit before tax		10,640	512	4,925
Tax credit/(charge)	4	160	(288)	1,841
Profit after tax		10,800	224	6,766
Attributable to:				
Equity holders of the Company		10,800	224	6,766
Basic earnings per ordinary share	5	4.7p	0.1p	3.0p
Diluted earnings per ordinary share	5	4.6p	0.1p	3.0p

All figures presented on pages 5 to 11, for the 26 weeks ended 1 December 2007 and 2 December 2006, are unaudited. The figures in respect of the 52 weeks ended 2 June 2007 are audited.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AT 1 DECEMBER 2007

	Note	1 Dec 2007 £000	2 Dec 2006 £000	2 June 2007 £000
ASSETS				
Non Current Assets				
Property, plant and equipment		8,693	6,877	6,508
Intangible assets - goodwill		9,436	9,436	9,436
Intangible assets – development expenditure		15,514	12,570	13,670
Available for sale financial assets		349	349	349
Deferred tax assets		6,094	2,887	4,968
Total Non Current Assets		40,086	32,119	34,931
Current Assets				
Inventories		52,411	27,512	25,268
Trade and other receivables		66,532	83,192	52,563
Cash and cash equivalents		-	-	12,049
Total Current Assets		118,943	110,704	89,880
Total Assets		159,029	142,823	124,811
EQUITY				
Issued capital		11,680	11,627	11,659
Share premium		36,885	36,521	36,751
Translation reserve		311	(885)	227
Retained earnings		14,789	(5,072)	2,300
Total Equity		63,665	42,191	50,937
LIABILITIES				
Non Current Liabilities				
Interest bearing loans and borrowings		102	151	99
Provisions	6	10,804	8,972	9,646
Total Non Current Liabilities		10,906	9,123	9,745
Current Liabilities				
Trade and other payables		75,078	72,491	59,368
Current tax liabilities		461	256	282
Interest bearing loans and borrowings		4,050	13,930	60
Provisions	6	4,869	4,832	4,419
Total Current Liabilities		84,458	91,509	64,129
Total Liabilities		95,364	100,632	73,874
Total Equity and Liabilities		159,029	142,823	124,811

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000
Balance at 3 June 2006	11,576	36,246	240	(5,595)	42,467
Profit for the period	-	-	-	224	224
Currency translation adjustments	-	-	(1,125)	-	(1,125)
Total income and expense for the period			(1,125)	224	(901)
Employee share incentive charges	-	-	-	299	299
Issue of shares	51	275	-	-	326
Balance at 2 December 2006	11,627	36,521	(885)	(5,072)	42,191
Profit for the period	-	-	-	6,542	6,542
Currency translation adjustments	-	-	1,112	-	1,112
Total income and expense for the period	-	-	1,112	6,542	7,654
Employee share incentive charges	-	-	-	385	385
Movement in employee share trusts	-	-	-	445	445
Issue of shares	32	230	-	-	262
Balance at 2 June 2007	11,659	36,751	227	2,300	50,937
Profit for the period	-	-	-	10,800	10,800
Currency translation adjustments	-	-	84	-	84
Total income and expense for the period	-	-	84	10,800	10,884
Deferred Tax adjustment	-	-	-	606	606
Employee share incentive charges	-	-	-	424	424
Movement in employee share trusts	-	-	-	659	659
Issue of shares	21	134	-	-	155
Balance at 1 December 2007	11,680	36,885	311	14,789	63,665

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
FOR THE 26 WEEKS ENDED 1 DECEMBER 2007

	26 weeks ended 1 Dec 2007 £000	26 weeks ended 2 Dec 2006 £000	52 weeks ended 2 June 2007 £000
Cash flows from operating activities			
Profit before tax	10,640	512	4,925
Adjustments for:			
Share based payments charge	424	299	684
Depreciation of property, plant and equipment	2,130	2,073	4,277
Amortisation of development expenditure	8,622	5,525	14,172
Loss on sale of property, plant and equipment	94	-	90
Net financial charges	395	1,331	2,187
Movement in trade and other receivables	(13,971)	(42,764)	(9,966)
Movement in trade and other payables	15,295	27,722	13,794
Movement in inventories	(27,143)	7,169	9,524
Movement in provisions	1,608	(1,029)	(826)
Cash generated (used in)/ from operations	(1,906)	838	38,861
Interest paid	(319)	(1,215)	(2,361)
Tax paid	(181)	(51)	(124)
Net cash used in operating activities	(2,406)	(428)	36,376
Cash flows from investing activities			
Purchase of property, plant and equipment	(4,153)	(1,280)	(3,256)
Development expenditure	(10,466)	(6,809)	(16,556)
Interest received	49	-	138
Net cash used in investing activities	(14,570)	(8,089)	(19,674)
Cash flows from financing activities			
Proceeds from issue of share capital	155	326	588
Proceeds from exercise of employee share options	659	-	445
Repayment of loans	-	(23)	(55)
Net cash generated from financing activities	814	303	978
Net change in cash and cash equivalents	(16,162)	(8,214)	17,680
Cash and cash equivalents at start of period	12,049	(5,880)	(5,880)
Effect of exchange rate fluctuations on cash held	63	221	249
Cash and cash equivalents at end of period	(4,050)	(13,873)	12,049

NOTES

1. BASIS OF PREPARATION

BASIS OF PREPARATION

This unaudited interim financial information is for the 26 week period ending 1 December 2007 and is prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and under the historical cost convention as modified by the revaluation of derivative instruments.

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 2 June 2007.

Interim Financial Information

The interim financial information for the 26 week periods ended 1 December 2007 and 2 December 2006 have not been audited but has been reviewed by the auditors. Their review report for the 26 week period ended 1 December 2007 is set out on page 12. Figures for the 52 week period ended 2 June 2007 are extracted from the Company's statutory financial statements for that financial year. Those financial statements have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY

The preparation of interim statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Key sources of estimation uncertainty and critical accounting judgements are as follows:

Warranties

Pace provides product warranties for its set-top boxes. 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 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.

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 in place 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 2000/01. The amount claimed is circa $7.2m. The Directors believe that they have good defences to the claim and therefore, in the absence of any liability, no provision has been made. In addition on 15 July 2007 Pace filed a counterclaim 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 this financial information.

Change of year end

The Pace Board resolved on 23 July 2007 that it has decided to change its Accounting Reference Date from 31 May to 31 December. This follows Pace's statement released on 23 March 2007 when it was announced that the change in Group Accounting Reference Date would be made in order to more closely align the Group's business reporting cycle with those of its principal customers and suppliers.

Accordingly the next audited financial statements will be prepared for the 7 month period to 31 December 2007.

2 Revenue

	26 weeks ended 1 Dec 2007 £000	26 weeks ended 2 Dec 2006 £000	52 weeks ended 2 June 2007 £000
The geographical analysis of revenue by destination is as follows:			
United Kingdom	41,752	29,913	69,487
Continental Europe	33,981	31,747	62,693
Far East and Australasia	14,765	19,818	30,888
North America	99,545	98,739	223,239
Rest of the World	-	-	206
	190,043	180,217	386,513

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.

3 Exceptional items

	26 weeks ended 1 Dec 2007 £000	26 weeks ended 2 Dec 2006 £000	52 weeks ended 2 June 2007 £000
Restructuring and reorganisation costs	-	884	1,208

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

4 Tax credit/(charge)

	26 weeks ended 1 Dec 2007 £000	26 weeks ended 2 Dec 2006 £000	52 weeks ended 2 June 2007 £000
The tax credit/(charge) is based on the estimated effective rate of taxation on trading for the period and represents:			
Current tax:			
Overseas tax charge	(360)	(288)	(240)
Total current tax charge	(360)	(288)	(240)
Deferred tax:			
Origination and reversal of timing differences	(257)	-	2,081
Adjustment in respect of previous periods	1,169	-	-
Effect of change in tax rate	(392)	-	-
Total deferred tax credit	520	-	2,081
Tax credit/(charge)	160	(288)	1,841

The tax credit for the period reflects the overseas tax charge of £0.4m and deferred tax credit, principally due to the recognition of prior year losses and a change in the UK corporation tax rate from 30% to 28%.

5 Earnings per ordinary share

Basic earnings per ordinary share have been calculated by reference to the profit after taxation, and the average number of qualifying ordinary shares of 5p in issue of 228,286,371 (2006: 224,533,942).

Diluted earnings per ordinary share vary from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted earnings are the same as basic earnings. The diluted number of qualifying ordinary shares was 233,894,974 (2006: 225,959,720).

6 Provisions

	Royalties under negotiation £000	Warranties £000	Total £000
At 2 June 2007	7,473	6,592	14,065
Charge for the period	1,730	2,504	4,234
Utilised	(790)	(1,836)	(2,626)
At 1 December 2007	8,413	7,260	15,673
Due within one year	-	*4,869*	*4,869*
Due after more than one year	*8,413*	*2,391*	*10,804*

INDEPENDENT REVIEW REPORT TO PACE MICRO TECHNOLOGY PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 1 December 2007 which comprises the condensed consolidated interim income statement, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of changes in shareholders' equity, the condensed consolidated interim cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 1 December 2007 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Leeds
29 January 2008