PACE®

bringing technology home

pace micro technology plc

Restatement of Financial Information under International Financial Reporting Standards

January 2006

Restatement of Financial Information under International Financial Reporting Standards

1. Introduction

Pace Micro Technology plc has previously prepared consolidated financial statements in accordance with UK Generally Accepted Accounting Practice (“UK GAAP”). Following a European Union Regulation issued in 2002, the Group will now report its consolidated figures under International Accounting Standards and International Financial Reporting Standards (collectively IFRS) as adopted by the European Union.

The Group’s first annual report under IFRS will be for the 52 weeks ending 3 June 2006 and these financial statements will include restated figures under IFRS for the 53 weeks ended 4 June 2005. The Group’s date of transition to IFRS is 29 May 2004, being the start of the previous period that will be presented as comparative information. The first IFRS results announced were for the 26 weeks ended 3 December 2005.

This document sets out the changes in accounting policies arising from the adoption of IFRS and presents restated information for the opening balance sheet at 29 May 2004, the 27 weeks ended 4 December 2004 and the 53 weeks ended 4 June 2005 which were previously published under UK GAAP.

Conversion to IFRS affects the Group’s reporting particularly in the areas of accounting for development expenditure, share based payments and financial instruments. This said, the adoption of IFRS represents an accounting change only and does not change the cash flows of the Group or its operations.

2. Basis of preparation and summary of significant accounting policies

Basis of preparation

The interim financial statements, announced on 17 January 2006, have been prepared in accordance with the accounting policies the Company expects to adopt in its 2006 annual report. These accounting policies are based on the IAS, IFRS and IFRIC interpretations that the Company expects to be applicable at that time. The IFRS and IFRIC interpretations that will be applicable at 3 June 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the interim financial statements.

The Group’s consolidated financial statements were prepared in accordance with UK GAAP until 4 June 2005. The Company has applied the same accounting policies and methods of computation in the interim financial statements as those published by the Group on 12 July 2005 within its 2005 Annual Report, except as explained in notes 3 and 4 of this document, where the effects of changes in accounting policies arising as a result of the adoption of IFRS are set out. Reconciliations between previously reported financial statements prepared under UK GAAP and the IFRS equivalents are presented for profit for the year ended 4 June 2005 and the six months ended 4 December 2004 and net assets as at 4 June 2005, 4 December 2004 and 29 May 2004. Further disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are also given in notes 3 and 4 of this document.

IFRS 1 provides certain optional exemptions from full retrospective application of all accounting standards effective at the Company's reporting date. As discussed in more detail in the relevant sections below, the Company has taken advantage of the exemptions relating to: business combinations, cumulative translation differences and share-based payment transactions. The Company has not taken advantage of the available optional exemption relating to fair value measurement of financial assets and financial liabilities at initial recognition.

Use of estimates

The preparation of financial statements in conformity with 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.

Principles of consolidation

The consolidated interim financial statements incorporate the interim financial statements of the Company and all its subsidiaries. Intra-group transactions, including sales, profits, receivables and payables, have been eliminated on the Group consolidation.

Subsidiaries

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. The financial statements of subsidiaries are included from the date that control commences until the date that control ceases.

Business combinations

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.

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 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 IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment at that date. Goodwill is tested for impairment annually. The Company performs its annual impairment review at the cash-generating unit level. For 2004, goodwill was assigned to the cash-generating units of the Group. The subsequent impairment test showed no goodwill impairment.

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 sale are intended, a market exists, and sufficient resources are available to complete the project, development costs are capitalised and amortised on a straight-line basis over the estimated useful life of the product concerned. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Where no internally generated intangible asset can be recognised, 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 (see below) and impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives for development expenditure are estimated to be in a range of between 6 and 18 months.

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.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Company.

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, which is usually upon delivery to the customer.

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.

Government grants

Grants in respect of specific research and development projects are credited to research and development costs within the income statement 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. Movements in the provision for doubtful debts are recorded in the income statement.

Inventory

Inventory is stated at the lower of cost and net realisable value. In general, cost is determined on a first-in-first-out basis and includes 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 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. Exchange differences on the restatement of the net investment in overseas subsidiaries and the difference between the income statement translated at the average rate and the closing rate are recognised directly in a separate component of equity.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate 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. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

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. For the purposes of interim statements, the current tax charge is based upon a prudent expectation of the likely full year position.

Deferred tax is provided using the balance sheet liability method, providing 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 suitable 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 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 consolidated in the financial statements. 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.

Pension contributions

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.

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.

(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. Explanation of transition to IFRS

The Company's financial statements for the year ending 3 June 2006 will be the first annual financial statements that comply with IFRS. The interim financial statements have been prepared as described in note 2 of this document. The Company has applied IFRS 1 in preparing the interim financial statements. The last financial statements under UK GAAP were for the 53 week period ended 4 June 2005 and the date of transition was therefore 29 May 2004. Presented below is the reconciliation of profit for the 53 week period ended 4 June 2005 and the reconciliations of equity at 29 May 2004, being the start of that period ("Transition Date") and at 4 June 2005 (date of last UK GAAP financial statements) as required by IFRS 1. In addition, the reconciliation of equity at 4 December 2004 and the reconciliation of profit for the 27 week period ended 4 December 2004 have been included below as required by IFRS 1 to enable a comparison of the 2005 interim figures with those published in the corresponding period of the previous financial year. For explanations of the nature and effect of the changes in accounting policies as a consequence of the transition to IFRS, refer to note 4 of this document.

(i) Reconciliations of UK GAAP profit and loss account to IFRS income statement

		27 weeks ended 4 December 2004 (date of corresponding interim financial statements)		
	Notes	UK GAAP Unaudited £000	Effect of transition to IFRS Unaudited £000	IFRS Unaudited £000
Revenue		150,547	–	150,547
Cost of sales		(125,227)	–	(125,227)
Gross profit		25,320	–	25,320
Administrative expenses				
Research and development	b	(11,831)	1,684	(10,147)
Other administrative expenses	a,d	(10,537)	(90)	(10,627)
Total Administrative expenses		(22,368)	1,594	(20,774)
Operating profit		2,952	1,594	4,546
Financial income		211	-	211
Financial expenses		(92)	-	(92)
Profit before tax		3,071	1,594	4,665
Tax credit		4,896	-	4,896
Profit after tax		7,967	1,594	9,561

(i) Reconciliations of UK GAAP profit and loss account to IFRS income statement (continued)

	Notes	UK GAAP Audited £000	Effect of transition to IFRS Unaudited £000	IFRS Unaudited £000
		53 weeks ended 4 June 2005 (end of last period presented under UK GAAP)		
Revenue		253,326	–	253,326
Cost of sales	e	(200,704)	892	(199,812)
Gross profit		52,622	892	53,514
Administrative expenses				
Research and development	b	(23,976)	816	(23,160)
Other administrative expenses	a,d	(21,621)	(180)	(21,801)
Total Administrative expenses		(45,597)	636	(44,961)
Operating profit		7,025	1,528	8,553
Goodwill write back	a	(360)	360	–
Financial income		728	–	728
Financial expenses		(318)	–	(318)
Profit before tax		7,075	1,888	8,963
Tax credit		4,717	–	4,717
Profit after tax		11,792	1,888	13,680

(ii) Reconciliation of UK GAAP profit to IFRS profit

	Notes	27 weeks ended 4 December 2004 £000	53 weeks ended 4 June 2005 £000
Profit after tax as reported under UK GAAP		7,967	11,792
Adjustments for:			
Product development; capitalisation and amortisation	b	1,684	816
Share-based payments; expensed to profit or loss	d	(371)	(744)
FX contracts not revalued in period under UK GAAP	e	–	892
Goodwill not amortised subsequent to Transition Date	a	281	564
Goodwill write back	a	–	360
Profit after tax as reported under IFRS		9,561	13,680

(iii) Reconciliations of equity at 29 May 2004 from UK GAAP to IFRS

		As at 29 May 2004		
		UK GAAP	Effect of transition to IFRS	IFRS
		Audited	Unaudited	Unaudited
	Notes	£000	£000	£000
Assets				
Non Current Assets				
Property, plant and equipment		7,010	-	7,010
Goodwill	a	9,436	-	9,436
Intangible assets - development expenditure	b	-	6,634	6,634
Deferred tax assets	f	-	3,812	3,812
Total Non Current Assets		16,446	10,446	26,892
Current Assets				
Inventories		10,006	-	10,006
Trade and other receivables		60,912	-	60,912
Cash and cash equivalents		20,705	-	20,705
Deferred tax assets	f	3,812	(3,812)	-
Total Current Assets		95,435	(3,812)	91,623
Total Assets		111,881	6,634	118,515
Equity				
Share capital		11,339	-	11,339
Share premium account		35,647	-	35,647
Retained earnings	a,b,d,e	2,523	5,629	8,152
Cumulative translation adjustment	c	-	-	-
Total Equity attributable to equity holders of the parent		49,509	5,629	55,138
Liabilities				
Non Current Liabilities				
Borrowings		246	-	246
Provisions	f	20,748	(9,580)	11,168
Total Non Current Liabilities		20,994	(9,580)	11,414
Current Liabilities				
Trade and other payables		40,738	-	40,738
Current tax liabilities		587	-	587
Borrowings		53	-	53
Provisions	e,f	-	10,585	10,585
Total Current Liabilities		41,378	10,585	51,963
Total Liabilities		62,372	1,005	63,377
Total Equity and Liabilities		111,881	6,634	118,515

(iv) Reconciliation of equity and liabilities at 4 June 2005 from UK GAAP to IFRS

		As at 4 June 2005		
		UK GAAP	Effect of transition to IFRS	IFRS
	Notes	Audited £000	Unaudited £000	Unaudited £000
Assets				
Non Current Assets				
Property, plant and equipment		6,185	-	6,185
Goodwill	a	8,872	564	9,436
Intangible assets - development expenditure	b	-	7,450	7,450
Investments in other companies		674	-	674
Deferred tax assets	f	-	4,009	4,009
Total Non Current Assets		15,731	12,023	27,754
Current Assets				
Inventories		10,135	-	10,135
Trade and other receivables		51,827	-	51,827
Cash and cash equivalents		26,647	-	26,647
Deferred tax assets	f	4,009	(4,009)	-
Total Current Assets		92,618	(4,009)	88,609
Total Assets		108,349	8,014	116,363
Equity				
Share capital		11,349	-	11,349
Share premium account		35,677	-	35,677
Retained earnings	a,b,d,e	14,825	7,751	22,576
Cumulative translation adjustment	c	-	150	150
Total Equity attributable to equity holders of the parent		61,851	7,901	69,752
Liabilities				
Non Current Liabilities				
Borrowings		205	-	205
Provisions	f	14,627	(5,323)	9,304
Total Non Current Liabilities		14,832	(5,323)	9,509
Current Liabilities				
Trade and other payables		31,561	-	31,561
Current tax liabilities		49	-	49
Borrowings		56	-	56
Provisions	f	-	5,436	5,436
Total Current Liabilities		31,666	5,436	37,102
Total Liabilities		46,498	113	46,611
Total Equity and Liabilities		108,349	8,014	116,363

(v) Reconciliation of equity and liabilities as at 4 December 2004 from UK GAAP to IFRS

		As at 4 December 2004		
		UK GAAP	Effect of transition to IFRS	IFRS
	Notes	Audited £000	Unaudited £000	Unaudited £000
Assets				
Non Current Assets				
Property, plant and equipment		6,618	-	6,618
Goodwill	a	9,155	281	9,436
Intangible assets - development expenditure	b	-	8,318	8,318
Investments in other companies		200	-	200
Deferred tax assets	f	-	3,958	3,958
Total Non Current Assets		15,973	12,557	28,530
Current Assets				
Inventories		17,611	-	17,611
Trade and other receivables		67,868	-	67,868
Cash and cash equivalents		11,688	-	11,688
Deferred tax assets	f	3,958	(3,958)	-
Total Current Assets		101,125	(3,958)	97,167
Total Assets		117,098	8,599	125,697
Equity				
Share capital		11,347	-	11,347
Share premium account		35,671	-	35,671
Retained earnings	a,b,d,e	10,756	7,330	18,086
Cumulative translation adjustment	c	-	266	266
Total Equity attributable to equity holders of the parent		57,774	7,596	65,370
Liabilities				
Non Current Liabilities				
Borrowings		242	-	242
Provisions	f	15,362	(4,760)	10,602
Total Non Current Liabilities		15,604	(4,760)	10,844
Current liabilities				
Trade and other payables		43,040	-	43,040
Current tax liabilities		628	-	628
Borrowings		52	-	52
Provisions	f	-	5,763	5,763
Total Current liabilities		43,720	5,763	49,483
Total Liabilities		59,324	1,003	60,327
Total Equity and Liabilities		117,098	8,599	125,697

(vi) Reconciliation of equity from UK GAAP to IFRS

	Notes	29 May 2004 £000	4 December 2004 £000	4 June 2005 £000
Total equity as reported under UK GAAP		49,509	57,774	61,851
Adjustments for:				
Intangible assets; product development capitalised	b	6,634	8,318	7,450
FX contracts not revalued in period under UK GAAP	e	(1,005)	(1,003)	(113)
Goodwill not amortised subsequent to Transition Date	a	-	281	564
Total equity as reported under IFRS		55,138	65,370	69,752

4. Explanation of material adjustments to equity at 4 June 2005, 4 December 2004 and 29 May 2004, and to profit for the year ended 4 June 2005 and for the six months ended 4 December 2004

The transition to IFRS resulted in the following changes in accounting policies:

a. Goodwill

Goodwill is not amortised under IFRS but is measured at cost less impairment losses. Under UK GAAP, goodwill was amortised on a straight-line basis over the time that the Group was estimated to benefit from it. The change does not affect equity at 29 May 2004 because, as permitted by IFRS 1, goodwill arising on acquisitions before 29 May 2004 (date of transition to IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment at that date, the results of which assessment indicated no such impairment.

Under UK GAAP, goodwill on acquisitions prior to 1 July 1998 was eliminated directly against reserves. The gain or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill in respect of that business. As the Group has opted not to restate business combinations prior to the date of transition, the goodwill written off to reserves under UK GAAP has been frozen and remains in reserves. During the period ended 4 June 2005, the Group completed the liquidation of Pace Italia srl and goodwill previously written off to reserves of £360,000 was recycled to the income statement and charged to the loss on disposal under UK GAAP. This adjustment is not required under IFRS with the result that no gain or loss from the liquidation of Pace Italia srl is reported in the IFRS income statement in contrast to the loss reported under UK GAAP.

b. Research and development; IAS 38 Intangible Assets

Under UK GAAP all expenditure on research and development was expensed as incurred. Under IFRS research expenditure is recognised as an expense as incurred but costs incurred on product development are capitalised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, resources are available to complete the development and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Capitalised product development expenditure is amortised over the expected useful life.

c. Other reserves

As permitted by IFRS 1, the cumulative translation adjustment has been re-set to zero as at 29 May 2004. This has had no effect on net equity but has decreased retained earnings by £473,000 as at 4 June 2005, 4 December 2004 and 29 May 2004 with equal and opposite adjustments to the cumulative translation adjustment reserve.

d. Share-based payments

The Group issues equity-settled share-based payments to certain employees. In accordance with IFRS 2, equity-settled share-based payments are measured at fair value at the date of grant, in respect of options granted after 7 November 2002 and which were outstanding at 1 January 2005. 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 Group's estimate of the shares that will eventually vest. Under UK GAAP, the charge recorded represented the difference between the share price at the date of grant and the exercise price of the option. In addition, the Group took advantage of an exemption under which no charge was made in respect of SAYE options. Thus, under UK GAAP, no charge was made in respect of share-based payments.

e. Derivative Financial Instruments

The IFRS standards relevant to the accounting for, and presentation of, financial instruments are IAS 32 Financial Instruments: Disclosure and Presentation, and IAS 39 Financial Instruments: Recognition and Measurement. The differences between IFRS and UK GAAP which are immediately relevant to the Group are the requirement to recognise all derivatives on the balance sheet (which are then "marked-to-market" each reporting period to reflect their fair value), and the detailed requirements that have to be met to qualify for hedge accounting.

f. Balance Sheet reclassifications

Provisions have been reclassified into amounts falling due within one year and amounts falling due after more than one year.

Deferred tax assets have been reclassified as Non Current Assets.

g. Exemptions

IFRS 1 First-time Adoption of International Financial Reporting Standards sets out the transition rules, which must be applied, when IFRS is adopted for the first time. The standard sets out certain mandatory exemptions to retrospective application and certain optional exemptions. The most significant optional exemptions available and taken by the Group are as follows:

(i) Share-based transactions; the Group adopted the exemption in IFRS 1 which allows a first-time adopter to apply the new standard only to share options and equity instruments granted after 7 November 2002 that have not vested by 1 January 2005.

(ii) Cumulative translation differences; under IAS 21 The Effects of Changes in Foreign Exchange Rates cumulative translation differences within reserves are recycled from equity to the income statement on disposal of a foreign operation. In order to eliminate the need to retrospectively apply this requirement, the Group took the exemption to set cumulative translation differences to zero at the date of transition.

Pace Micro Technology plc
Victoria Road Saltaire Shipley
West Yorkshire BD18 3LF England
Tel +44 (0)1274 532000
Fax +44 (0)1274 532010
www.pacemicro.com