

TRANSACTION OVERVIEW

1. Introduction

Pace entered into an agreement with Philips on 19 December 2007 to acquire the Philips STB and CS Business, conditional on the successful conclusion of the consultation procedure with Philips' relevant works council in relation to the Acquisition. Pursuant to that agreement, Pace entered into a formal sale and purchase agreement with Philips on 14 February 2008, valuing the Business at up to €95 million (approximately £68 million) on a debt-free, cash-free basis subject, *inter alia*, to approval by Pace shareholders.

As part of the transaction, Pace and Philips have agreed to enter into a trademark licence ("Trademark Licence"), which entitles Pace to utilise the Philips brand in retail distribution for an agreed range of products for up to three years from Completion.

As a result of changes in trading terms with certain key customers and a number of other matters that were identified after 19 December 2007, the terms of the transaction were amended under a settlement agreement on 31 March 2008 which included the reduction of the total maximum consideration payable for the Business from €95 million (approximately £68 million) to €88 million (approximately £63 million).

Up to €83 million (approximately £59 million) of the revised consideration will be satisfied by the issue of up to 64,481,049 New Ordinary Shares to Philips. The balance of €5 million (approximately £3.5 million) will be payable in cash in two instalments of €2.5 million each on the second and third anniversaries of Completion, contingent on the Trademark Licence not being terminated. If the Trademark Licence is terminated prior to the date of payment of the relevant instalment, the relevant instalment will be reduced *pro rata* to the number of months which have elapsed.

Assuming the issue of 64,481,049 shares, being the maximum number of New Ordinary Shares capable of being issued as consideration under the sale and purchase agreement (as amended), and no exercise of existing options over existing Pace ordinary shares, at Completion the Enlarged Share Capital of Pace is expected to be 298,198,633 ordinary shares and would (on a fully diluted basis) be held as to approximately 78.4 per cent. by the existing Pace shareholders and as to approximately 21.6 per cent. by Philips.

The Acquisition constitutes a "Reverse Takeover" under the Listing Rules and Completion is conditional, *inter alia*, upon the approval of Pace shareholders and for this reason a General Meeting has been convened for 16 April 2008. At the General Meeting, shareholder approval will also be sought to create and authorise the issue of the New Ordinary Shares and to increase the Directors' authority to issue shares generally. In addition, the Company is required to make an application to the UKLA for the Enlarged Share Capital to be admitted to the Official List.

2. Background to and reasons for the Acquisition

The Pace management team commenced a wide-ranging strategic review of the Pace business in April 2006 to reinvigorate Pace's business and to seek to create the optimum business structure for a successful set-top box business. The outcome of the strategic review was a business restructuring programme to:

- re-focus Pace's organisation around the technologies and needs of its customers;
- develop a new business operating model and methodology to:
 - improve product execution and customer-driven decision making;
 - increase operational efficiencies; and
 - drive new diversification opportunities; and
- initiate the development of a new high performance company culture, starting with Pace's executive team, based on a new vision of "Great products to our customers, every time".

The Directors believe that completion of the strategic review and the restructuring programme was a key factor in the improvement in gross margin performance and return to profitability for Pace for the year ended 2 June 2007 and the seven months ended 31 December 2007.

Against the backdrop of the strategic review, the restructuring programme and the resulting improvement in financial and operating performance, the Directors assessed a number of opportunities to grow and develop the Pace business. As part of this review, the Directors considered the impact of and opportunities presented by industry consolidation. The Directors concluded that there were significant potential benefits arising from acquiring new technologies, customers and established routes to market from competitor companies which would accelerate the growth of Pace's business, better serve customers and provide access to new products and geographies. The opportunity to acquire the Philips STB and CS Business provides Pace with an opportunity to realise some of the benefits of consolidation and accelerate the growth and development of the Pace Group.

Pace and the Business each have over 20 years' experience in the set-top box market and they are two of the world's leading set-top box companies. Combined, they will have a broader customer and product portfolio than that of the existing Pace Group and the Business will bring to the Enlarged Group a new cultural dimension, including mainland European sales skills and relationships. Pace's existing strength is in its relationships with Anglo, Australian and American customers.

Benefits of the Acquisition

The Directors expect there to be a number of key areas in which the operating and financial performance of Pace and the Business will be improved as a result of the Acquisition.

A broader customer base, with limited overlap

- Pace and the Business have limited customer overlap and, where overlap occurs, complementary products are supplied, which should result in revenue growth and broader customer relationships with those customers;
- Significant scope to strengthen Pace's current market position by acquiring a set-top box company with a similarly strong position; and
- Expanded geographic reach into new markets, primarily in Europe and Latin America, and opportunities for growth in these new markets following the Acquisition.

Addition of new technologies and business streams to Pace

- The addition of new technologies to the Pace product portfolio, in particular, capabilities in IPTV, which the Directors believe will improve Pace's position in what is expected to be an important sector for future growth;
- Potential for further new business opportunities through the connectivity solutions business being acquired, such as through the cross-selling of products;
- Extension of the engineering team that will widen Pace's software and applications knowledge. Importantly, this includes skills in conditional access systems, which will increase the number of payTV operators that can be targeted by the Enlarged Group; and
- Addition of the Philips STB and CS Business' established retail business, with scope for future growth of this business within the Enlarged Group.

Scope for operating improvements

- Margin improvements as a result of implementing the Pace operating model

There is potential for substantial benefits and growth in margins through the application of Pace's operating model and business structure to the Enlarged Group. The Directors believe that Pace's approach has already delivered a material improvement in Pace's own operating and financial performance in the year ended 2 June 2007 and the seven months ended 31 December 2007.

The Business reported gross margins of 10.3% and 14.1% for the years ended 31 December 2006 and 31 December 2007 respectively. The Directors believe that the Business' gross margins can be improved towards Pace's gross margin over time, partly as a result of the adoption of Pace's operating model. Pace reported gross margins of 15.9% for the year ended 2 June 2007, which improved to 20.3% for the seven months ended 31 December 2007.

The Directors believe that Pace's business structure will enable significant performance gains within the Enlarged Group. A key area of the Pace operating model has been to better focus commercial and engineering teams on important customer needs such as delivering new technology first, competitive pricing and speed to market, while also improving profitability.

Pace's organisational structure comprises business units with dedicated cross-functional teams for groups of customers that share common technology platforms. Each business unit is managed by a management team with a flat structure, comprising commercial, technology and product delivery (engineering) staff, all usually based in the same area to ensure strong communication and alignment and to avoid slow upward management decision making. Each business unit maintains a close working relationship with its customers and is well placed to make decisions based on product roadmap priorities and support issues. In turn, the business unit has a gross margin target that is linked to remuneration and performance incentives, which has helped to drive growth and profitability.

This approach, in addition to new business systems and processes that have been developed in-house specifically for this industry, has delivered increased gross margin and improved time to market, while producing improved customer satisfaction. The

Directors believe that adoption of the Pace operating model can lead to similar benefits for the Enlarged Group over time following the Acquisition.

- Opportunities for potential cost savings

There is potential for improved operational efficiencies, in particular opportunities to generate greater efficiencies in the global supply chain, including manufacturing and purchasing.

The Business is currently subject to a number of re-charged costs from the Philips Group relating to central or support services, such as legal and treasury functions, central marketing costs and supply chain administration costs. The provision of certain of these services by Philips will be subject to a transitional services agreement, but over time the Directors believe that many of these recharged costs can be eliminated from the ongoing operating costs of the Enlarged Group.

Summary

The Board believes that the Enlarged Group has significant potential to further develop its position as one of the world's leading set-top box companies with a global customer portfolio of major payTV operators. The engineering skill-set for the delivery of digital TV into the home will be extended and the Enlarged Group will be capable of creating products across more technology platforms than many of its competitors. This will enable the Enlarged Group to extend its market reach into new technologies such as IPTV, into new geographies such as Latin America and to grow its research capability by combining work in areas that are expected to drive the next stage of market development, such as home networking.

At the same time, the Pace management team will be able to apply its proven operating model to the Business, which the Board believes has the potential to drive further growth in revenue and margins over time and deliver cost synergies that can create value for Shareholders.

3. Information on Pace

Pace is a leading technology developer for the global payTV industry. Pace's principal activities are the design, development and distribution of digital receivers and decoders for digital TV and the reception or transmission of interactive services, telephony and high-speed data. The Company's headquarters are in Saltaire in the UK. Pace employs over 580 people, developing a wide range of products and advanced technologies for the digital TV market at sites around the world, including in the US.

Summary financial information below relating to Pace for the three years ended 2 June 2007 and the seven months ended 31 December 2007, has been extracted without material adjustment from the information incorporated by reference in the Prospectus:

	<i>Year ended</i> <i>4 June</i> <i>2005</i> <i>£'000</i> <i>IFRS</i>	<i>Year ended</i> <i>3 June</i> <i>2006</i> <i>£'000</i> <i>IFRS</i>	<i>Year ended</i> <i>2 June</i> <i>2007</i> <i>£'000</i> <i>IFRS</i>	<i>Seven Months</i> <i>Year ended</i> <i>31</i> <i>December</i> <i>2007</i> <i>£'000</i> <i>IFRS</i>
Turnover on continuing operations (including associates and joint ventures)	253,326	178,095	386,513	249,875
Profit/(loss) on ordinary operations before interest, tax and exceptional items (continuing operations)	8,698	(16,186)	8,320	15,886
<i>Operating profit margin</i>	<i>3.4 %</i>	<i>(9.1 %)</i>	<i>2.2 %</i>	<i>6.4%</i>
Gross assets	116,363	108,758	124,811	170,397
<i>Gross profit margin</i>	<i>22.6%</i>	<i>18.0%</i>	<i>15.9%</i>	<i>20.3%</i>

Note: Investors should read the whole of the Prospectus and should not rely on the summary financial information set out above.

4. Information on the Philips STB and CS Business

The Philips STB and CS Business is a designer and supplier of a range of digital TV products including satellite, cable, terrestrial and IPTV set-top box and connectivity products. The business is based in France and employs around 335 staff at a number of sites.

Summary financial information below relating to the Philips STB and CS Business for the three years ended 31 December 2007 is extracted without material adjustment from the Prospectus

	<i>Year ended</i> <i>31 December</i> <i>2005</i> <i>€'000</i> <i>IFRS</i>	<i>Year ended</i> <i>31 December</i> <i>2006</i> <i>€'000</i> <i>IFRS</i>	<i>Year ended</i> <i>31 December</i> <i>2007</i> <i>€'000</i> <i>IFRS</i>
<i>Turnover on continuing operations (including associates and joint ventures)</i>	<i>456,109</i>	<i>351,546</i>	<i>415,735</i>
<i>Profit/(loss) on ordinary operations before interest, tax and exceptional items (continuing operations)</i>	<i>16,182</i>	<i>(46,525)</i>	<i>(21,733)</i>
<i>Operating profit margin</i>	<i>3.5%</i>	<i>(13.2%)</i>	<i>(5.2%)</i>
<i>Gross Assets</i>	<i>126,796</i>	<i>134,305</i>	<i>131,984</i>
<i>Gross profit margin</i>	<i>17.8%</i>	<i>10.3%</i>	<i>14.1%</i>

Note: Investors should read the whole of the Prospectus and should not rely on the summary financial information set out above.

Further financial information on the Philips STB and CS Business is set out in Part IV of the Prospectus.

5. Objectives and strategy of the Enlarged Group

The Acquisition will combine two of the world's leading providers of digital TV products and systems, focusing on the set-top box market. The Enlarged Group is expected to be one of the world's largest set-top box companies.

The Enlarged Group's strategic priorities will be to:

- implement Pace's business structure and operating model in the Business, which Pace believes is an appropriate and suitable structure and model for both growing revenues and improving financial performance within the Enlarged Group;
- consolidate new customer relationships and obtain revenue synergies from the Acquisition;
- engage new employees with the vision, values and objectives of the Enlarged Group;
- utilise the increased scale of the Enlarged Group to create efficiencies in the supply chain;
- optimise the development and manufacturing operations of the Enlarged Group; and
- leverage the engineering and technology capabilities of the Enlarged Group to identify and create new customer and business opportunities.

6. Financial effects of the Acquisition

Pace is purchasing the Philips STB and CS Business for up to €88 million (approximately £63 million) on a debt-free, cash-free basis. The Board believes this represents a reasonable purchase price for the Philips STB and CS Business, given the medium- and long-term potential to improve the level of profitability and operating performance of the Business and the significant scope for synergies within the Enlarged Group.

The historic financial performance of the Philips STB and CS Business over the past two financial years has been below management's expectations. However, the Directors believe that there is significant potential to improve the operating and financial performance of the Business in the future.

The Directors expect the Acquisition to be earnings dilutive in the year ending 31 December 2008. However, the Directors expect the Acquisition to enhance earnings per share in the year ending 31 December 2009, the first full year following the Acquisition¹.

The unaudited *pro forma* statement of net assets of the Enlarged Group, prepared for illustrative purposes only and showing the effects of the Acquisition and the issue of the New Ordinary Shares, is set out in Part IX of the Prospectus.

It is envisaged that one-off costs (excluding fees in relation to the Acquisition) estimated to amount to £2.0 million, in aggregate, associated with the integration of the Philips STB and CS Business will be incurred in the year ending 31 December 2008.

The Acquisition will result in the recognition of goodwill and intangible assets. In accordance with IFRS, intangible assets other than goodwill are amortised in the income statement over their estimated economic life.

7. Current trading and prospects

Pace

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

While the market remains difficult to predict and Pace's performance is largely predicated on the performance of its customers, the Board is confident that Pace is investing in the right

products and technologies to meet the demands of its growing customer base. Further, Pace is currently in advanced negotiations regarding a significant order for a new product that would, if confirmed, be delivered in 2008 and 2009.

Following the exceptional sales performance and improvements made by Pace in 2007, the Board is confident it is on track to meet its expectations for the 2008 financial year.

The Philips STB and CS Business

Following the year ended 31 December 2007, the Philips STB and CS Business has continued to trade broadly in line with the Business management team's expectations.

The Enlarged Group

The Directors are confident of the financial and trading prospects of the Enlarged Group due to both the encouraging state of recent trading conditions and contract wins in Pace's business and also due to the benefits that are expected to accrue as a result of the Acquisition as described further in the Prospectus.

8. Information on the New Ordinary Shares

The New Ordinary Shares will, when issued, rank in full for dividends and other distributions and otherwise *pari passu* in all respects with the existing Pace ordinary shares.

Applications have been made to the FSA for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and dealings in the New Ordinary Shares will commence on 21 April 2008.

9. Management and Board of the Enlarged Group

The Board of Pace will remain as constituted at present. No employees of the Philips STB and CS Business or Philips Group are expected to join the Board of Pace following the Acquisition.

10. Dividend policy

Whilst recognising the move by Pace towards a sustainable and profitable business, the Directors have not recommended the payment of a dividend for the period ended 31 December 2007. The Board will keep the matter under review and any decision to recommend the payment of a dividend in future will reflect the Enlarged Group's cash flow and desired capital structure, as well as its future growth opportunities.

11. General Meeting

A notice convening the General Meeting, to be held at 10.00 a.m. on 16 April 2008 at Pace Micro Technology plc, Salts Mill, Victoria Road, Saltaire, West Yorkshire BD18 3LF is set out in the Prospectus.

Notes:

1 The statement that this Acquisition is expected to be earnings dilutive for Pace in the year ending 31 December 2008 and earnings enhancing in the year ending 31 December 2009 relates to future actions and circumstances, which, by their nature, involve risks, uncertainties and other factors. These statements do not constitute a profit forecast and should not be interpreted to mean that earnings for any future financial period would necessarily match or be greater or less than those for any preceding financial period. Earnings in this context represent net after tax earnings on an IFRS basis, excluding the amortisation of intangible assets and any exceptional items.