



>> PACE MICRO TECHNOLOGY PLC : INTERIM REPORT 2004
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PACE MICRO TECHNOLOGY PLC

FOR THE 26 WEEKS ENDED 29 NOVEMBER 2003.

SALIENT POINTS:

- Turnover increased 32% to £110.4m (2002: £83.4m);
- Profit before tax and amortisation of goodwill £1.1m (2002: loss £15.9m);
- Adjusted diluted earnings per share before amortisation of goodwill 0.7p (2002: loss per share 7.3p);
- Overheads for half year reduced to £20.1m, with annual run rate down to £40m p.a. (year ended 31 May 2003: £52.3m);
- Net cash position £13.8m (31 May 2003: £13.1m);
- Modest improvement in business performance expected.

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CHAIRMAN'S STATEMENT.

Pace's results for the six months ending 29 November 2003 continued the improvement that started in the first half of calendar 2003 and the Board is pleased to report that the Group has made a welcome return to profit.

RESULTS.

Turnover on Pace's digital set-top box sales and additional services rose 32% to £110m (2002: £83m). Profit before tax and amortisation of goodwill was £1.1m (2002: loss £15.9m). Earnings per share were 0.7p (2002: loss 7.3p).

TRADING AND FINANCIAL REVIEW.

During the period under review Pace shipments rose 51% to 985,000 units and approximately 50% of these units were for the UK market. In the UK revenues remained fairly stable; a decline in average selling prices was offset by an increase in unit shipments through BSkyB's continued acquisition of subscribers and a marked increase in Sky+ demand towards the end of the period. However as expected, our cable customers took very little product.

Asia Pacific and continental Europe generated the majority of Pace's growth in this period, accounting for 45% of shipments by volume. These markets are now showing more activity than they have for several years and Pace shipped boxes to over 20 different countries, with Sky Italia becoming one of our largest customers. We made our first shipments to Viasat in Scandinavia and the first boxes were shipped to Foxtel in Australia to enable them to commence their trials. In Germany, our box is in final testing at Premiere and we have recently signed a contract with Kabel Deutschland. We envisage that these markets will be important sources of demand over the next year.

Within the US market, demand remains slow and Pace shipped 45,000 boxes, albeit at better margins than previously achieved. The low level of shipments, high level of engineering and customer support have resulted in continuing losses in our US operations. However consumer demand for high-definition (HD) content, set top boxes, televisions and displays is accelerating. Cable operators are beginning to focus their attention on digital video recorders (DVRs), during the period Pace commenced its DVR development programme for this market.

The global set-top box market remains highly competitive, reflected in the gross margin of 19.1% (2002: 12.7%). The 2002 margin was lower than normal due to one-off losses incurred on the initial Sky+ shipments, removing this impact gives a like-for-like margin comparison of 19.1%.

As a result of the business restructuring effected in the last financial year, overheads for the half year were reduced to £20.1m, with the annual cost run rate reducing to £40m from £52.3m in the year ended 31 May 2003.

Net assets were unchanged at around £45m. Within net current assets, debtors decreased to £56.2m (31 May 2003: £57.2m), creditors decreased to £34.1m (31 May 2003: £38.6m), stocks decreased to £14.3m (31 May 2003: £16.0m) and net cash increased a little to £13.8m (31 May 2003: £13.1m).

Our world class engineering expertise is being enhanced, which includes development of some software in India. We are also improving competitiveness through new product innovation, cost-effective designs and quality improvements.

DIVIDEND.

The Board has decided not to declare an interim dividend (as last year). The position for the full year will be reviewed in the light of the results for the second half of the year.

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CHAIRMAN'S STATEMENT CONTINUED.

OUTLOOK.

The dynamics of the global digital TV markets mean that the outlook varies from region to region.

In the UK, more than half of homes have digital TV and the increase in penetration is likely to continue. However, due to the decline in average selling prices, we expect to see a reduction in our UK revenues over current levels.

Continental Europe and Asia represent opportunity for future growth, which will be stimulated by lower set-top box prices and DVR deployments, enabling broadcasters and operators to roll out their digital services in a profitable way.

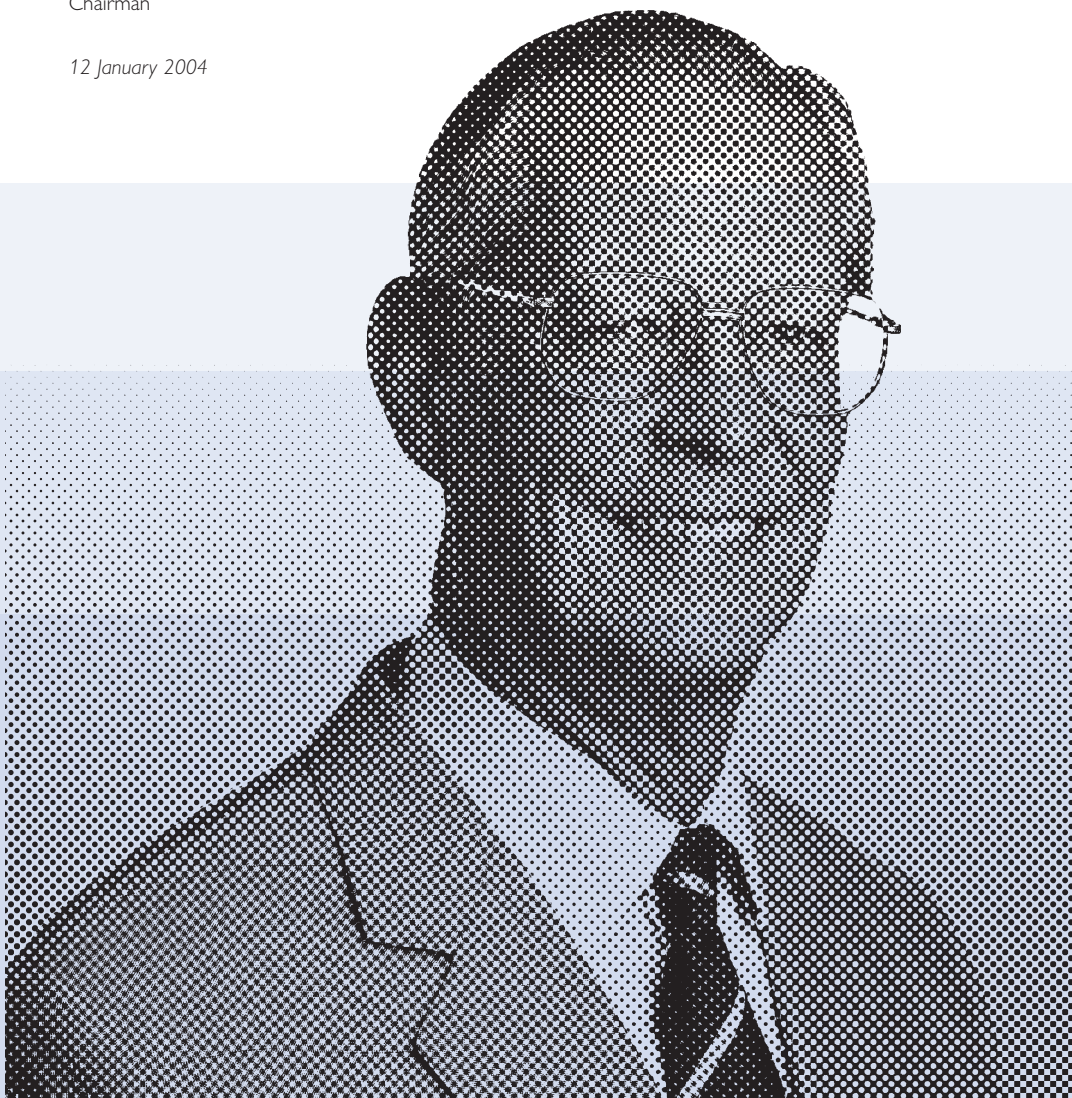
In the US our goal is to grow our relatively small market share through our engagements with Comcast and Time Warner, together accounting for over 50% of the US cable market.

Since the close of the first half the US dollar has declined, which in principle should benefit margins, as lower product costs will offset the decline in average selling prices. However, it is not possible to predict the impact of future exchange rate developments.

Overall we expect our business performance to continue to improve. This will depend on our ability to win the available business and our customers' willingness and financial ability to develop their services and utilise Pace set-top box technology in volume.

Sir Michael Bett
Chairman

12 January 2004



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CONSOLIDATED PROFIT AND LOSS ACCOUNT.

FOR THE 26 WEEKS ENDED 29 NOVEMBER 2003.

	Note	26 Weeks Ended 29 Nov 2003 (unaudited) £000	26 Weeks Ended 30 Nov 2002 (unaudited) £000	52 Weeks Ended 31 May 2003 (audited) £000
Turnover	2	110,412	83,408	166,597
Cost of sales				
Recurring		(89,314)	(72,777)	(131,794)
Exceptional	3	-	-	(2,542)
Gross profit		21,098	10,631	32,261
Other operating income and charges:				
Recurring		(20,433)	(26,832)	(52,257)
Exceptional	3	-	-	(29,981)
Operating profit/(loss)		665	(16,201)	(49,977)
Net interest receivable/(payable)		109	(218)	(100)
Profit/(loss) on ordinary activities before taxation		774	(16,419)	(50,077)
Tax on profit/(loss) on ordinary activities	4	486	2,289	2,046
Profit/(loss) on ordinary activities after taxation		1,260	(14,130)	(48,031)
Dividends payable	6	-	-	-
Retained profit/(loss) for the financial period		1,260	(14,130)	(48,031)
Basic earnings /(loss) per ordinary share	5	0.6p	(7.5)p	(22.0)p
Diluted earnings /(loss) per ordinary share	5	0.6p	(7.5)p	(22.0)p
Dividend per ordinary share	6	Nil	Nil	Nil

The results of the current period derive from continuing operations.

RESULTS BEFORE AMORTISATION OF GOODWILL AND EXCEPTIONAL ITEMS.

	£000	£000	£000
Operating profit/(loss)	947	(15,666)	(16,053)
Profit/(loss) on ordinary activities before taxation	1,056	(15,884)	(16,153)
Adjusted basic earnings/(loss) per ordinary share	0.7p	(7.3)p	(6.8)p
Adjusted diluted earnings/(loss) per ordinary share	0.7p	(7.3)p	(6.8)p

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CONSOLIDATED BALANCE SHEET.

AT 29 NOVEMBER 2003.

Note	29 Nov 2003 (unaudited) £000	30 Nov 2002 (unaudited) £000	31 May 2003 (audited) £000
Fixed assets			
Intangible	9,661	30,648	10,000
Tangible	8,747	13,445	10,269
Investments	7 2,515	4,015	2,515
	20,923	48,108	22,784
Current assets			
Stocks	14,325	25,146	15,967
Debtors	8 56,153	52,752	57,201
• due within one year	50,997	44,506	49,317
• due after more than one year	5,156	8,246	7,884
Cash at bank and in hand	14,154	15,677	13,410
	84,632	93,575	86,578
Creditors: amounts falling due within one year	(34,109)	(32,286)	(38,638)
Net current assets	50,523	61,289	47,940
Total assets less current liabilities	71,446	109,397	70,724
Creditors: amounts falling due after more than one year	(257)	(288)	(288)
Provisions for liabilities and charges	9 (26,029)	(26,370)	(26,331)
Net assets	45,160	82,739	44,105
Capital and reserves			
Called up equity share capital	11,316	11,312	11,312
Share premium account	35,434	35,426	35,427
Shares to be issued	-	5,360	-
Merger reserve	-	17,209	-
Profit and loss account	(1,590)	13,432	(2,634)
Total shareholders' funds	45,160	82,739	44,105

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CONSOLIDATED CASH FLOW STATEMENT.

FOR THE 26 WEEKS ENDED 29 NOVEMBER 2003.

	Note	26 Weeks Ended 29 Nov 2003 (unaudited) £000	26 Weeks Ended 30 Nov 2002 (unaudited) £000	52 Weeks Ended 31 May 2003 (audited) £000
Net cash inflow from operating activities	10	6,470	28,858	32,093
Returns on investments and servicing of finance		101	(617)	(496)
Taxation		758	9,074	9,082
Capital expenditure and financial investment		(1,477)	(1,374)	(2,001)
Acquisitions and disposals		(5,093)	-	(5,000)
Equity dividends paid		-	(1,523)	(1,528)
Cash inflow before financing		759	34,418	32,150
Financing		(15)	(49)	(48)
Increase in cash in the period		744	34,369	32,102
Reconciliation of net cash flow to movement in net funds/(debt)				
Increase in cash in the period		744	34,369	32,102
Cash flow from decrease in debt		26	49	49
Movement in net funds in the period		770	34,418	32,151
Net funds/(debt) at start of period		13,077	(19,074)	(19,074)
Net funds at end of period		13,847	15,344	13,077

ANALYSIS OF CHANGES IN NET FUNDS.

	At 31 May 2003 £000	Cashflow £000	At 29 Nov 2003 £000
Cash at bank and in hand	13,410	744	14,154
Debt due within one year	(45)	(5)	(50)
Debt due after one year	(288)	31	(257)
	13,077	770	13,847

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NOTES

1 BASIS OF PREPARATION.

The interim financial information for the 26-week period ended 29 November 2003 has not been audited, nor has the interim financial information for the 26-week period ended 30 November 2002. They comply with relevant accounting standards and have been prepared on a consistent basis using the accounting policies set out in the 2003 Annual Report and Accounts. The figures for the 52-week period ended 31 May 2003 do not constitute the Group's statutory accounts for that period but have been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors have reported on those accounts and that report was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The accounts for the full year will be for the 52-week period ending 29 May 2004.

Uncertainty arising from market conditions

There is some evidence of improved outlook over the last six months in the global technology market, but risks remain in the digital broadcasting industry. Lower selling prices are a feature of current and anticipated market conditions.

The Group has remained cash positive since July 2002, whilst maintaining bank facilities in an amount of £20m. These facilities are due to expire in July 2004 but may be further renewed.

The Board has considered these factors in reviewing its working capital forecasts. Based on this, the Board has concluded that, whilst recognising there is some uncertainty, the Group has appropriate existing banking arrangements and that, in the event it should need to, it will be able to maintain such facilities.

The Board has therefore concluded it is appropriate to confirm the going concern basis of preparation for the financial information.

NOTES CONTINUED.

2 TURNOVER.

	26 Weeks Ended 29 Nov 2003 (unaudited) £000	26 Weeks Ended 30 Nov 2002 (unaudited) £000	52 Weeks Ended 31 May 2003 (audited) £000
The geographical analysis of turnover by destination is as follows:			
United Kingdom	58,191	64,999	137,494
Europe	41,915	4,542	9,806
Far East (including Australasia)	1,241	5,593	9,060
North America	6,925	7,287	9,911
Rest of the World	2,140	987	326
	110,412	83,408	166,597

3 EXCEPTIONAL ITEMS.

	26 Weeks Ended 29 Nov 2003 (unaudited) £000	26 Weeks Ended 30 Nov 2002 (unaudited) £000	52 Weeks Ended 31 May 2003 (audited) £000
Restructuring costs	-	-	5,900
Onerous contracts	-	-	3,671
Impairment of own shares held in ESOP and QUEST	-	-	1,500
Impairment of Xcom Multimedia goodwill	-	-	21,452
	-	-	32,523

4 TAX ON PROFIT/LOSS ON ORDINARY ACTIVITIES.

	26 Weeks Ended 29 Nov 2003 (unaudited) £000	26 Weeks Ended 30 Nov 2002 (unaudited) £000	52 Weeks Ended 31 May 2003 (audited) £000
The tax charge/(credit) is based on the estimated effective rate of taxation for the period and represents:			
United Kingdom corporation tax at 30%	(909)	129	-
Overseas tax	39	290	300
Deferred tax (see note 8)	384	(2,708)	(2,346)
	(486)	(2,289)	(2,046)

5 EARNINGS PER ORDINARY SHARE.

Basic earnings/(loss) per ordinary share have been calculated by reference to the profit/(loss) before and after the amortisation of goodwill and exceptional items, and after taxation, and the average number of qualifying ordinary shares of 5p in issue of 218,251,847 (2002: 218,180,942).

Diluted earnings/(loss) 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/(loss) are the same as basic earnings/(loss). The diluted number of qualifying ordinary shares was 223,912,904 (2002: 218,638,976).

6 DIVIDENDS PAYABLE.

The directors have not declared an interim dividend (2002: Nil).

7 INVESTMENTS.

An amount of £2,515,000 (2002: £4,015,000) is held by the Pace Micro Technology Employee Benefits Trust and the QUEST in respect of own shares purchased to satisfy options granted to employees.

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NOTES CONTINUED.

8 DEBTORS.

Debtors include a deferred tax asset of £7,500,000 (2002: £8,246,000), of which £5,156,000 (2002: £8,246,000) is due after more than one year.

9 PROVISIONS FOR LIABILITIES AND CHARGES.

	Royalties under negotiation £000	Onerous contracts £000	Warranties £000	Corporation Tax £000	Total £000
At 31 May 2003	10,491	3,671	2,082	10,087	26,331
Net charge for the period	830	-	2,047	-	2,877
Utilised	(504)	(1,315)	(1,360)	-	(3,179)
At 29 November 2003	10,817	2,356	2,769	10,087	26,029

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. Whilst negotiations over these liabilities continue, they are not concluded. 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.

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

10 NET CASH INFLOW FROM OPERATING ACTIVITIES.

	26 Weeks Ended 29 Nov 2003 (unaudited) £000	26 Weeks Ended 30 Nov 2002 (unaudited) £000	52 Weeks Ended 31 May 2003 (audited) £000
Operating profit/(loss)	665	(16,201)	(49,977)
Exceptional items	-	-	35,523
Operating profit/(loss) before exceptional items	665	(16,201)	(17,454)
Goodwill amortisation	282	535	1,401
Depreciation	2,681	3,293	6,303
Loss/(profit) on sale of tangible fixed assets	178	(29)	595
Decrease in stocks	1,642	21,398	30,752
Decrease in debtors	796	30,577	25,759
Increase/(decrease) in creditors	528	(18,792)	(15,714)
(Decrease)/increase in provisions for liabilities and charges	(302)	8,077	451
Net cash inflow from operating activities	6,470	28,858	32,093

11 CONTINGENT LIABILITY.

The Company is currently involved in a dispute relating to events two years ago with a maximum liability of £1.5 million. On the basis of advice received, the Company is contesting both the basis and quantum and the matter is likely to be resolved within the next twelve months. In the opinion of the directors the outcome is uncertain as to basis and quantum and therefore the Company has not made a provision in these results.

INDEPENDENT REVIEW REPORT BY KPMG AUDIT PLC TO PACE MICRO TECHNOLOGY PLC.

INTRODUCTION.

We have been engaged by the company to review the financial information set out on pages 4 to 9 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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 Listing Rules of the Financial Services Authority. 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

REVIEW WORK PERFORMED.

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

UNCERTAINTY ARISING FROM MARKET CONDITIONS.

In forming our conclusion we have considered the adequacy of the disclosures made in note 1 of the financial information concerning the uncertainty arising from market conditions and the directors' consideration of the appropriateness of the going concern basis of preparation of the financial information. In view of the significance of this matter, we consider that note 1 should be drawn to your attention but our conclusion is not modified in this respect.

REVIEW CONCLUSION.

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 26 weeks ended 29 November 2003.

KPMG Audit Plc
Chartered Accountants
Leeds

12 January 2004

Pace Micro Technology plc
Victoria Road Saltaire Shipley
West Yorkshire BD18 3LF England

Tel + 44 (0) 1274 532000
Fax + 44 (0) 1274 532010
www.pace.co.uk



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