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pace micro technology plc  
**interim report 2006**

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## Pace Micro Technology plc for the 26 weeks ended 3 December 2005

### Salient points

- Shipments of 1.1 million set-top boxes (2004: 2.1 million);
- Revenue of £78.9m (2004: £150.5m);
- Loss before tax and restructuring costs of £8.9m (2004: profit £4.7m);
- Diluted loss per share of 4.6p (2004: earnings per share of 4.3p);
- Net cash position £13.6m (4 June 2005: £26.4m).

All figures, including comparatives, are presented under IFRS.

## Chairman's Statement

Over the last six months Pace has won further new supply contracts with important digital TV operators around the world, continuing the momentum that is seeing Pace gain an increasing role in the payTV market in the developed world. Shipments on these contracts are expected to commence in the remainder of the financial year.

As announced on 16th December 2005, some short-term setbacks in new product introduction and some shipment delays due to industry-wide component shortages impacted the Group's performance. Turnover for the half year to 3 December 2005 was substantially reduced at £78.9m (2004: £150.5m), with a loss before tax and restructuring costs of £8.9m (2004: profit £4.7m). Basic earnings per share amounted to a loss per share of 4.6p (2004: earnings per share 4.4p). Diluted earnings per share amounted to a loss of 4.6p (2004: earnings per share 4.3p).

An interim dividend is not declared (2004:nil).

### Trading review

#### UK and EMEA

In the UK, which is a maturing market, shipments decreased to 0.4 million boxes (2004: 0.5m). BSkyB remained an important customer as its Sky+ PVR service continues to grow and there were ongoing shipments into UK cable.

In continental Europe, Pace has worked with Premiere, Kabel Deutschland (KDG), Viasat and Sky Italia. Shipments were lower at 0.5m (2004: 1.3m), the reduction mainly due to the high level of boxes delivered to Sky Italia last year as part of its service launch. In Germany, Pace has continued to ship basic digital set-top boxes to KDG and Premiere.

Additionally for Premiere, Pace has recently launched a standard definition PVR and become the first supplier to deliver a certified set-top box for its high definition service. This set-top box is Europe's first to utilise the latest MPEG-4 compression technology, which enables more high definition channels to be delivered within existing available bandwidth.

Pace has commenced PVR shipments to Sky Italia and to Viasat in Scandinavia. It is developing its first set-top box for delivery to UPC (part of Liberty Global Inc) in The Netherlands following a contract win in June 2005.

#### North America

In the US, Pace is now close to seeing a return on the investment made by the Group in this market over the last six years. This follows major contract wins with Comcast in May 2005 and DIRECTV in July 2005. Currently Pace is in the final development stages before delivery of the first products on both of these important contracts.

Pace's shipments to North America during the period increased slightly to 99,000 units (2004: 75,000) and includes shipments to Rogers Cable and Videotron, Canadian cable operators.

#### Asia Pacific

In Asia Pacific, Pace continued to work with Foxtel in Australia and Sky New Zealand. Pace shipped PVRs for the Foxtel IQ service on both satellite and cable platforms and commenced shipments of the new Sky New Zealand PVR in December. New business was won with Galaxy Satellite Broadcasting in Hong Kong, Pace's first move into the Chinese market.

## Chairman's Statement (Cont)

### Engineering and Operations

The contracts Pace is currently working on reflect the important strategic moves taken by the Group over the last eighteen months to expand its worldwide customer base and shift the balance of shipments towards more advanced products for major payTV operators. The Pace engineering team is meeting a number of challenges in bringing this complex range of new products to market as quickly as possible commensurate with having a reliable product. That this work is both complex and needs first class engineering skills represents one of the major barriers to entry in our market.

The management team has continued to drive initiatives to improve efficiency, cost-effectiveness and focus. In the last six months Pace has made further improvements to its engineering development process that will enable the Group to take greater advantage of outsourced engineering and manufacturing. This work will help improve margins from current levels and deliver next generation products.

The industry is presently constrained by a shortage of components. This affected the shipments we expected to make in November. Although that shortfall has been substantially made up, component availability remains as an issue in the short-term.

### Future technologies

Pace continues to take a long-term view of its market. To ensure it is at the forefront of creating innovative new solutions for the digital home, Pace is increasing investment in its technology programme. Products and technologies currently under development include high definition, multiroom, home networking, mobile, a solution to improve satellite signal distribution around apartment and similar buildings, bandwidth enhancements for cable operators, software to enable Open Cable in the US and devices that allow content to be delivered via broadband in the home. These investments are expected to result in growth and higher margin products in the coming years.

## Financial Review

The Board has previously discussed the impact of International Financial Reporting Standards (IFRS) and the figures and information contained in this Interim Report have, for the first time, been prepared using IFRS as set out in the accounting policies. Comparative figures for 2004 and 2005 have also been adjusted and the full impact of IFRS changes is outlined in a note on the Group's website.

As previously announced on 16th December 2005, the principal difference between IFRS and UK GAAP for Pace is the IAS38 requirement to capitalise development expenditure and amortise that expenditure over the economic life of a product. Due to the product delays outlined above and the additional engineering resource required to bring these products to market, the Board now expects a net increase of over £7m in the amount of capitalised development expenditure over the year, of which £5.5m has occurred in the first half.

Overheads (excluding restructuring costs) on an IFRS basis have decreased slightly. Selling, general and administrative expenditure (excluding restructuring costs) remained stable at £10.6m and engineering development charges decreased, after the impact of the capitalisation of development expenditure discussed above, to £9.4m (2004: £10.1m). As a percentage of revenue, total overheads excluding restructuring costs, were 25% (2004: 14%). The deterioration in this ratio is due to the shortfall in revenue in the last six months and is expected to reverse in the six months to 3 June 2006. The gross margin of 13.5% is lower than the comparative period, reflecting the competitive environment and also partly as a result of the impact of reduced revenue on the fixed cost of sales and the strengthened US dollar. The gross margin is also expected to improve in the six months to 3 June 2006.

## Chairman's Statement (Cont)

Net assets at 3 December 2005, excluding goodwill decreased to £51.2m (4 June 2005: £60.3m). Net current assets were £35.6m (4 June 2005: £51.5m). Net cash balances at the period-end were £13.6m (4 June 2005: £26.4m).

Stocks at the period end amounted to £18.8m (4 June 2005: £10.1m), comprising £7.9m of raw materials and work in progress and £10.9m of finished goods. Debtors of £43.4m (4 June 2005: £51.8m) included insured balances of £35.0m (2005: £36.8m).

The Group has arranged new bank facilities to cover its anticipated working capital requirements as the business builds in the second half.

## Chief Executive

At the Company's AGM in September it was announced that John Dyson would retire from the Pace Board upon the appointment of a new Chief Executive. The search is now reaching its final stages and the Board expects to make an announcement shortly.

## Outlook

Revenues are expected to improve significantly during the second half through shipments to the US as well as Premiere in Germany, UPC in The Netherlands, Foxtel in Australia and Sky New Zealand. This growth will be offset somewhat as in the UK we expect units and revenues to continue to decline in the short-term. In addition, the Board expects Pace's engineering capacity to expand through improved productivity, recruitment and the increased use of outsourcing, to drive more advanced product development and improve Pace's product cost-reduction cycles.

A number of risks in completing the engineering development for the US shipments still remain and the Group is committed to substantial orders of components to fulfil its delivery schedules and to provide a level of protection against possible component shortages.

The Board remains confident that Pace is well positioned for a solid performance in the next financial year due to its growing customer base, demand for new technologies such as high definition, MPEG-4 and multiroom and from shipments into the US that are expected to be flowing strongly by then. Although short-term issues may impact immediate expectations, the Board continues to be enthusiastic about the Group's position and has confidence in the ability of Pace's employees to progress our business.

Sir Michael Bett

Chairman

17 January 2006

## Consolidated interim income statement

For the 26 weeks ended 3 December 2005

	Note	26 weeks ended 3 Dec 2005 £000	27 weeks ended 4 Dec 2004 £000	53 weeks ended 4 June 2005 £000
Revenue	2	78,940	150,547	253,326
Cost of sales		(68,288)	(125,227)	(199,812)
<b>Gross profit</b>		10,652	25,320	53,514
Administrative expenses:				
Research and Development expenditure		(9,416)	(10,147)	(23,160)
Other administrative expenses:				-
Before restructuring costs and non-recurring credit		(10,647)	(10,627)	(21,656)
Restructuring costs	3	(970)	-	(325)
Non-recurring credit	4	-	-	180
Total Administrative expenses		(21,033)	(20,774)	(44,961)
<b>Operating (loss)/profit</b>		(10,381)	4,546	8,553
Financial income		592	211	728
Financial expenses		(51)	(92)	(318)
<b>(Loss)/profit before tax</b>		(9,840)	4,665	8,963
Tax (charge)/credit	5	(264)	4,896	4,717
<b>(Loss)/profit after tax</b>		(10,104)	9,561	13,680
<b>Attributable to:</b>				
Equity holders of the Company		(10,104)	9,561	13,680
Basic (loss)/earnings per ordinary share	6	(4.6)p	4.4p	6.2p
Diluted (loss)/earnings per ordinary share	6	(4.6)p	4.3p	6.1p

All figures are unaudited. The figures for the period to 4 June 2005 have been restated from the audited UK GAAP figures presented on 12 July 2005, for which an unqualified auditors' report was received. Details on the IFRS impact on the Group's historical numbers are available on the Group's website.

## Consolidated interim balance sheet

At 3 December 2005

	Note	3 Dec 2005 £000	4 Dec 2004 £000	4 June 2005 £000
<b>Assets</b>				
<b>Non Current Assets</b>				
Property, plant and equipment		7,278	6,618	6,185
Goodwill		9,436	9,436	9,436
Intangible assets - development expenditure		12,972	8,318	7,450
Investments in other companies		777	200	674
Deferred tax assets		4,009	3,958	4,009
<b>Total Non Current Assets</b>		34,472	28,530	27,754
<b>Current Assets</b>				
Inventories		18,822	17,611	10,135
Trade and other receivables		43,413	67,868	51,827
Cash and cash equivalents		13,864	11,688	26,647
<b>Total Current Assets</b>		76,099	97,167	88,609
<b>Total Assets</b>		110,571	125,697	116,363
<b>Equity</b>				
Issued capital		11,487	11,347	11,349
Share premium		36,038	35,671	35,677
Cumulative translation adjustment		215	266	150
Retained Earnings		12,868	18,086	22,576
<b>Total Equity attributable to equity holders of the parent</b>		60,608	65,370	69,752
<b>Liabilities</b>				
<b>Non Current Liabilities</b>				
Borrowings		182	242	205
Provisions	7	9,310	10,602	9,304
<b>Total Non Current Liabilities</b>		9,492	10,844	9,509
<b>Current Liabilities</b>				
Trade and other payables		35,274	43,040	31,561
Current tax liabilities		220	628	49
Borrowings		57	52	56
Provisions	7	4,920	5,763	5,436
<b>Total Current Liabilities</b>		40,471	49,483	37,102
<b>Total Liabilities</b>		49,963	60,327	46,611
<b>Total Equity and Liabilities</b>		110,571	125,697	116,363

## Consolidated interim statement of changes in shareholders' equity

	Share capital	Share premium	Cumulative translation adjustment	Retained earnings	Total equity
	£000	£000	£000	£000	£000
<b>Balance at 29 May 2004</b>	11,339	35,647	-	8,152	55,138
Profit for the period	-	-	-	9,561	9,561
Employee share incentive charges	-	-	-	371	371
Issue of shares	8	24	-	-	32
Currency translation adjustments	-	-	266	2	268
<b>Balance at 4 December 2004</b>	11,347	35,671	266	18,086	65,370
Profit for the period	-	-	-	4,119	4,119
Employee share incentive charges	-	-	-	372	372
Issue of shares	2	6	-	-	8
Currency translation adjustments	-	-	(116)	(1)	(117)
<b>Balance at 4 June 2005</b>	11,349	35,677	150	22,576	69,752
Loss for the period	-	-	-	(10,104)	(10,104)
Employee share incentive charges	-	-	-	314	314
Movement in employee share trusts	-	-	-	82	82
Issue of shares	138	361	-	-	499
Currency translation adjustments	-	-	65	-	65
<b>Balance at 3 December 2005</b>	11,487	36,038	215	12,868	60,608

## Consolidated interim cash flow statement

For the 26 weeks ended 3 December 2005

	26 weeks ended 3 Dec 2005 £000	27 weeks ended 4 Dec 2004 £000	53 weeks ended 4 June 2005 £000
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax	(9,840)	4,665	8,963
Adjustments for:			
Share based payments charge	314	371	744
Depreciation of property, plant and equipment	1,960	2,198	4,419
Amortisation of development expenditure	3,317	5,025	11,035
Loss on sale of property, plant and equipment	72	-	1
Net financial income	(541)	(119)	(410)
Movement in trade and other receivables	8,414	(6,890)	9,152
Movement in trade and other payables	3,797	1,998	(9,046)
Movement in inventories	(8,687)	(7,605)	(129)
Movement in provisions	(510)	(26)	(1,653)
Cash (used in) /generated from operations	(1,704)	(383)	23,076
Interest paid	(51)	(67)	(385)
Tax paid	(93)	(69)	(1,378)
<b>Net cash (used in)/ generated from operating activities</b>	<b>(1,848)</b>	<b>(519)</b>	<b>21,313</b>
<b>Cash flows from investing activities</b>			
Acquisition of trade investments	(103)	(200)	(674)
Purchase of property, plant and equipment (PPE)	(3,090)	(1,837)	(3,594)
Development expenditure	(8,839)	(6,709)	(11,851)
Proceeds from sale of PPE	-	2	6
Proceeds from exercise of employee share options	82	18	29
Interest received	572	119	728
<b>Net cash used in investing activities</b>	<b>(11,378)</b>	<b>(8,607)</b>	<b>(15,356)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	499	32	40
Repayment of loans	(22)	(5)	(38)
<b>Net cash generated from financing activities</b>	<b>477</b>	<b>27</b>	<b>2</b>
<b>Net change in cash and cash equivalents</b>	<b>(12,749)</b>	<b>(9,099)</b>	<b>5,959</b>
Cash and cash equivalents at start of period	26,647	20,705	20,705
Effect of exchange rate fluctuations on cash held	(34)	82	(17)
<b>Cash and cash equivalents at end of period</b>	<b>13,864</b>	<b>11,688</b>	<b>26,647</b>

## Notes

### 1. Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements of the company, for the 52-week period ending 3 June 2006, be prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the EU ("Adopted IFRS").

Consequently this interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are either endorsed by the EU and effective (or available for early adoption) at 3 June 2006, the Group's first annual reporting date at which it is required to use Adopted IFRS. Based on these IFRS, the directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS financial statements are prepared for the 52-week period ending 3 June 2006.

The Adopted IFRS that will be effective in the annual financial statements for the 52-week period ending 3 June 2006 are still subject to change and to additional interpretations and therefore cannot be determined with complete certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the 52-week period ending 3 June 2006.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Group together with a summary of significant accounting policies is provided in a note on the Group's website. This note includes reconciliations of equity and profit or loss for the comparative periods under UK Generally Accepted Accounting Practices ("UK GAAP") to those reported for those periods under IFRS.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The note below "Business Environment" gives further detail on the nature of some these factors.

These interim financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative instruments.

The interim financial information for the 26-week period ended 3 December 2005 has not been audited, nor has the interim financial information for the 27-week period ended 4 December 2004. The IFRS figures for the 53-week period ended 4 June 2005 are not the Company's statutory accounts for the financial year. These accounts, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

### Business Environment

#### Strategy

The Group continues to develop its set-top box strategy on three fronts:

- To develop increasingly technologically advanced products
- To match the geographic spread of its business with that of the global payTV operator market
- To identify and exploit opportunities for additional recurring revenue streams

#### Customers and Markets

The global market for payTV products (primarily set-top box products) is growing, although concentrated within a limited number of operators, some of which are currently in an unprofitable business development phase. The payTV market is attractive, and as with most modern markets, it is highly competitive with Pace's competitors ranging from divisions of large multinational electronics companies to specialist smaller companies. There are a number of barriers to market entry, in particular a requirement for complex post-deployment support to ensure deployed set-top boxes can continue to deliver over time a payTV service as this service grows in size and sophistication.

Orders placed by Pace's payTV customers are typically large one-off orders for delivery over a number of months with supplemental orders for additional volumes. As the eventual deployment of the set-top boxes can be unpredictable, revenues can be volatile. The difficulty in predicting Pace's business flow can be exacerbated by a number of other factors including, for example, the development process for an advanced set-top box which can take over 12 months. The Group works on long lead times (e.g. four months) for component supply and manufacture, typical of the industry. There are third party delivery risks, for example, difficulties in the delivery of components or software code, and the final go ahead for manufacture is usually dependent on product approvals both from the operator that has placed an order and from third parties. In addition, there is a strong customer demand for frequent design revisions that take into account price deflation and introduction of new, more cost effective electronic components. The revision process places increased demand on engineering resources but, at the same time, provides a further barrier to entry to new competitors.

The combined impact of these factors, together with the need to meet customer delivery requirements, imposes risk on Pace's product introduction programme.

#### Currency Risks

The standard 'industry currency' is the US dollar, with the majority of components and manufacturing capacity purchased in this currency. As a result, due to part of the Group's sales being in Sterling and Euros (the prices of which will be fixed for months in advance), the Group remains exposed to the risk of foreign currency movements. To manage this risk, the Group's treasury policy is to progressively cover cash flows over a six month period, and to seek a greater percentage of US dollar sales to provide a commercial hedge against currency exposures.

#### Engineering

The Group is dependent on the technological skills of its employees and is working to increase the average skill base at all of the main development sites. At the same time Pace is seeking to outsource a larger part of its development and next generation cost down activity to independent development centres and design and manufacturing partners. During the year a significant number of new products for new customers have been developed. Development costs directly attributable to these products are capitalised according to specified criteria and amortised over the product life. The nature of the development work, and the new product launch dates, will result in a significant capitalisation impact in this year.

To improve business effectiveness, so the Group is better able to manage the significant volume of development work currently underway and in plan, there is a significant internal re-organisation programme in place. The programme, which is nearing completion, has focussed on business processes; in particular improving the effectiveness of Pace's development process and the ability of the Group to outsource more development work.

#### Third Party and Other risks

Pace provides product warranties for its set-top boxes. Although it is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of a project before field deployment data is available, these estimates improve during the lifetime of the product in the field.

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.

The Group outsources its manufacture to third party specialist electronics manufacturers, in particular Solecron Corporation Inc. Solecron manufactures a significant percentage of the Group's products at plants in Romania and Shenzhen China, with a further plant in Mexico coming on line in the six months to 3 June 2006.

## 1. Basis of preparation (cont)

### Regulatory

Like all other businesses, the Group remains exposed to changes in the regulatory environment, including potential modifications in import duty regimes, discussions on which have been and continue to be held. Within this period, the Company has continued to manage the implementation of the EU WEEE and RoHs directives.

### Current financial position

The Group has new bank facilities to September 2007, based upon 50% of relevant trade debtors, up to a maximum of £50 million.

The Group is working on a number of major new projects for customers, completion dates for which have slipped from original plans, and for which customer acceptance will be required and is expected. To fulfil commitments to these customers, purchase orders for components have been and continue to be raised. Further variations in timings could have a short-term effect on revenues, profits and working capital.

The Board has built these circumstances into their working capital forecasts and modelled a number of business scenarios. Based upon these, whilst recognising that there is some uncertainty, the Board has concluded that the Group has appropriate banking arrangements, and that therefore it is appropriate to use the going concern basis of preparation for these interim financial statements.

## 2. Revenue

	<b>26 weeks ended 3 Dec 2005 £000</b>	<b>27 weeks ended 4 Dec 2004 £000</b>	<b>53 weeks ended 4 June 2005 £000</b>
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The geographical analysis of revenue by destination is as follows:

United Kingdom	40,064	58,043	106,269
Continental Europe	23,191	71,118	98,095
Asia Pacific	5,176	11,760	24,547
North America	10,509	9,245	23,531
Rest of the World	-	381	884
	<b>78,940</b>	<b>150,547</b>	<b>253,326</b>

## 3. Restructuring costs

	<b>26 weeks ended 3 Dec 2005 £000</b>	<b>27 weeks ended 4 Dec 2004 £000</b>	<b>53 weeks ended 4 June 2005 £000</b>
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Restructuring and reorganisation costs	970	-	325
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The restructuring and reorganisation charges relate to an ongoing restructuring programme within the Group.

## 4. Non-recurring credit

	<b>26 weeks ended 3 Dec 2005 £000</b>	<b>27 weeks ended 4 Dec 2004 £000</b>	<b>53 weeks ended 4 June 2005 £000</b>
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Release regarding reference to Financial Services and Markets Tribunal	-	-	(180)
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Previously the Company was party to a reference to the Financial Services and Markets Tribunal. Following the settlement of the matter in the 53 weeks ended 4 June 2005 a net release was made from the provision originally established.

## 5. Tax (charge)/credit

	<b>26 weeks ended 3 Dec 2005 £000</b>	<b>27 weeks ended 4 Dec 2004 £000</b>	<b>53 weeks ended 4 June 2005 £000</b>
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The tax (charge)/credit is based on the estimated effective rate of taxation on trading for the period and represents:

United Kingdom corporation tax at 30%	-	-	-
Overseas tax	(264)	(110)	(240)
Adjustment in respect of a prior year (see below)	-	4,860	4,760
Deferred tax	-	146	197
	<b>(264)</b>	<b>4,896</b>	<b>4,717</b>

Following the agreement of an outstanding Corporation Tax matter with the Inland Revenue in the UK, a one-off tax credit was taken in the 27 weeks ended 4 December 2004 in respect of a prior year.

## 6. (Loss)/earnings per ordinary share

Basic (loss)/earnings per ordinary share have been calculated by reference to the (loss)/profit after taxation, and the average number of qualifying ordinary shares of 5p in issue of 220,428,226 (2004: 219,057,810).

Diluted (loss)/earnings per ordinary share vary from basic (loss)/earnings per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted earnings are the same as basic (loss)/earnings. The diluted number of qualifying ordinary shares was 224,995,218 (2004: (224,548,028)).

## Independent Review Report by KPMG Audit Plc to Pace Micro Technology plc

### 7. Provisions

	Foreign exchange contracts marked to market £000	Royalties under negotiation (see below) £000	Onerous contracts £000	Warranties £000	Total £000
At 4 June 2005	113	6,440	1,026	7,161	14,740
Charge for the period	-	136	-	2,750	2,886
Utilised	(113)	(152)	(895)	(2,236)	(3,396)
At 3 December 2005	-	6,424	131	7,675	14,230
Due within one year	-	-	131	4,789	4,920
Due after more than one year	-	6,424	-	2,886	9,310

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.

### 8. Contingent liabilities

Under the Waste Electrical and Electronic Directive (WEEE) producers of electrical goods, including set-top boxes, are financially responsible for specified collection, recycling, treatment and disposal of past and future electronic products. It is not currently possible to estimate the Company's existing liability or future expenses resulting from the related WEEE legislation, as the Company awaits clarification from individual European member states of specific requirements and policies.

The Company was informed in the previous period of a potential claim from a former customer relating to the supply of set-top boxes in 2000/01 to a maximum liability of c£7.5m. The directors believe that they have good defences to such a claim and therefore, in the absence of any liability, no provision has been made.

### Introduction

We have been engaged by the Company to review the financial information set out on pages 5 to 13 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 financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the Group will be prepared in accordance with IFRSs as adopted for use in the European Union. This interim report has been prepared in accordance with the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* relevant to interim reports.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs as adopted for use by the European Union. This is because, as disclosed in note 1, the directors have anticipated that certain standards, which have yet to be formally adopted for use in the EU, will be so adopted in time to be applicable to the next annual financial statements.

### 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 Group 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.

### 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 week period ended 3 December 2005.

KPMG Audit Plc

Chartered Accountants

Leeds

17 January 2006