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Pace plc Interim results for the half year ended 30 June 2008[1]

Strong performance momentum continues with increasing volume shipments and successful acquisition

28 July 2008

Saltaire, UK, 28 July 2008: Pace, the leading independent developer of digital TV technologies for the global payTV industry, announces its Interim results for the half year to 30 June 2008.

Operating Highlights

- Strong operating performance during the period with volume shipments up 55% to 2.8m set-top boxes (six months ended 1 December 2007: 1.8m)
- Launched ten new HDPVR products with customers globally including: Foxtel, UPC, Viasat, Sky Italia, Sky New Zealand & US cable
- Acquisition completed and integration progressing well of set-top box business of Royal Philips Electronics which is already profitable
- Announced significant new cable contract with Comcast in the US (as previously announced)

Financial Highlights

- Revenues up 22% to £231.1m (six months ended 1 December 2007: £190.0m)
- Pace France revenues of £75.4m with profit before tax of £2.1m on volumes of 1.4m set-top boxes (for the period 21 April to 30 June 2008).
- Gross margin improved to 21.0% (six months ended 1 December 2007: 20.7%)
- Profit before tax and exceptional items up to £11.2m (six months ended 1 December 2007: £10.6m)
- Earnings per share of 3.1p (six months ended 1 December 2007: 4.6p)
- Net cash of £13.7m (31 December 2007: net borrowings £12.1m)

Outlook

- The Board reiterates its confidence in Pace's expectations for the 2008 and 2009 financial years

[1] Pace changed year end to 31 December in 2007 therefore first half 2008 figures are compared with six months ended 1 December 2007.

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Commenting on the results, Neil Gaydon, Chief Executive Officer, said:

"Pace made strong progress in the first half, building on the performance momentum it has created over the last three years, with early beneficial results from our successful Philips acquisition. We launched ten new high definition products with customers around the world and improved the overall performance across the Group. The business is in good shape to capitalise on growth in our core set-top box business, new markets and new technologies as the world embraces the wide range of digital TV solutions. We look forward to the future with confidence."

Contacts

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Pace plc Interim Results for the half year ended 30 June 2008

Introduction

Pace plc has strengthened its position as one of the world's leading set-top box technology companies through excellent performance in the first half of 2008. The Pace business is strongly diversified, operating in all key global markets and supplies 17 of the world's top 25 payTV operators[2] with products that cover the range of payTV operator and retail requirements. The product range incorporates all requirements from lower-specification digital adapters through to the latest high definition personal video recorder (HD PVR) platforms via satellite, cable, IPTV, terrestrial or broadband.

The Group closed its acquisition of the set-top box business of Royal Philips Electronics (now Pace France) on 21 April and, due to work initiated by the management team, performance improvements have been realised earlier than expected. As a result of this work and a beneficial US Dollar/Euro exchange rate, Pace France, initially expected to be loss making for 2008, is already profitable and generating cash.

Pace has also announced the appointment of two new non-executive Directors, Mike Inglis, Executive Vice President and General Manager of the Processor Division at ARM and John Grant, Non-executive Director of Hasgo Group Ltd.

Results Overview

The Group, including Pace France, continued to win new customers and grow market share with existing operator customers, resulting in balanced revenues across global markets. The Americas business has returned to more normal levels following exceptional performance in 2007 by being first to market with the next generation satellite HD PVR. The Americas delivered 37% of revenues, with 63% coming from Europe and Asia Pacific. Profit before tax and exceptional items for the business increased to £11.2m on combined revenues of £231.1m from shipments of 2.8m set-top boxes. Shipments into the EMEA region were 1.3m set-top boxes (six months ended 1 December 2007: 1.0m), with shipments into the APAC region of 0.4m (six months ended 1 December 2007: 0.2m). Americas shipments totalled 1.1m units (six months ended 1 December 2007: 0.6m).

[2] Not including payTV operators in China

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Pace France has added 20 customers, over 30 products, IPTV and a retail capability to the Group, built through its excellent engineering and technology capabilities and deep customer relationships. This was exemplified by the recent contract win with BT in the UK for its next-generation V-box, a hybrid HD-capable PVR due for delivery in 2009. It was Pace's first new contract announcement following the Philips acquisition and builds on the existing Pace France relationship as sole supplier of the current product.

The market for digital TV products continues to grow, with global shipments now expected to reach over 230m units in 2012[3]. Pace is focused on providing its customers with a full range of digital TV set top box solutions including products in the high growth areas of HD and PVR, which the Group primarily sells to major payTV operators with significant content rights. HD growth is expected to be particularly strong in the US and Europe. Sales of HD-ready screens continue to grow and globally 45 per cent of TV households will be 'HD-ready' by 2012[4] with the number of HD channels expected to triple[5].

Pace's leadership in high definition PVR technology was a key feature of the period, with 10 new platforms delivered, most of them first to market for brand new high definition customer launches that included Viasat, UPC, Sky Italia and Foxtel.

Analogue switch off programmes, which are Government-mandated and particularly aggressive in Europe and the USA, will drive demand across a wide range of digital set-top boxes. In the period Pace leveraged its product range and technical leadership to secure a significant new contract with Comcast in the USA to supply a low cost digital to analogue converter product that will enable the transition to all-digital networks. This will further embed Pace's position in the US cable market, where the Group has a growing customer base that it services with a range of more than 10 products, recently extended with an MPEG-4 HD PVR, a product Pace was first to ship to a number of cable operators.

Pace believes that it is operating in a growth segment within the market for home entertainment that is currently being driven by payTV operators as they compete with each other for subscribers and triple-play revenues. This is linked to pull from consumers that want products for HD and PVR services and are prioritising TV-led home entertainment spend ahead of other discretionary expenditure.

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[3] IMS Research 2007.

[4] Screen Digest 2008

[5] Number of HD channels will grow from 261 in 2007 to 770 in 2012. Screen Digest 2008

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Home entertainment technology convergence continues to be a key focus for longer-term product development. Pace is actively looking at opportunities to leverage its leadership in encrypted digital TV, technically the most difficult element of delivering convergence, to create new opportunities in 'whole home' entertainment solutions. Pace is also making good progress in its field trials for Multidweller, which enables convergent triple play services in places such as hotels and apartment blocks that are today difficult and expensive to access. In Europe and Asia, for example, over 50% of households are in apartment blocks and demand for digital services will increase as analogue switch-off progresses. Multidweller is designed to respond to these requirements. Customer trials are going well with positive feedback and the first shipments of this new product are expected to begin later this year.

Financial Review

In the six month period, Pace shipped 2.8m set-top boxes (six months ended 1 December 2007: 1.8m) with revenues of £231.1m (six months ended 1 December 2007: £190.0m). Profit before tax and exceptional items was £11.2m (six months ended 1 December 2007: £10.6m). Pace France contributed revenues of £75.4m with profit before tax of £2.1m on volumes of 1.4m set-top boxes (for the period 21 April to 30 June 2008).

The Group's gross margins increased to 21.0%, reflecting the continued operational focus across all of Pace's products. Average selling prices decreased from £106 to £83, primarily due to the different product mix profile from Pace France.

Overheads, which include Pace France and excluding the impact of IAS38 and exceptionals, were £39.3m (six months ended 1 December 2007: £30.2m). R&D spend before capitalisation of development expenditure in line with IAS38 was £24.6m (six months ended 1 December 2007: £18.3m) as Pace continued to invest in higher specification products such as HD PVR and new technologies and incorporated the overhead base from Pace France. An IAS38 credit of £2.4m (six months ended 1 December 2007: £1.8m) is reflected in the income statement and relates primarily to Multidweller and Retail products.

The interest charge was £0.4m (six months ended 1 December 2007: £0.4m) reflecting a net borrowings position during the period. A tax charge of £2.6m (six months ended 1 December 2007: tax credit £0.2m) relates to overseas tax charges of £1.1m and a deferred tax charge of £1.6m. Retained profit for the period was £7.9m (six months ended 1 December 2007: £10.8m). The Board is not declaring an Interim dividend (six months ended 1 December 2007: nil), but will keep its dividend policy under review.

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The balance sheet at 30 June 2008 reflects the impact of the assets and liabilities relating to the acquisition of Pace France. The main working capital items acquired at 21 April 2008 consisted of inventories of £10m, trade and other receivables of £58.5m and trade and other payables of £71m.

The underlying working capital changes in the period which led to an improvement in the cash position of £25.7m, after removing the impact of the acquired balances, were a reduction in trade and other receivables of £22.7m, as the high levels at 31 December 2007 returned to more normal levels, a decrease in levels of inventory of £4.8m and a reduction in the level of trade and other payables of £6m.

The Group finished the period with a cash position of £13.7m (31 December 2007: net borrowings £12.1m).

The principal risks and uncertainties facing the Group, including those referred to in note 1 to this interim statement, have not changed from those set out in the Annual Report and Accounts 2007.

Outlook

The Group has a leading position supplying global payTV operators and believes it is well placed to take advantage of the long term sustained growth in demand for set-top box products predicted by independent analysts and the Board. Macro-economic uncertainties exist and Pace's progress is ultimately connected to the performance of its customers. However, the Board believes Pace is making the right strategic choices to exploit the Group's significant expertise in set-top box technology, unmatched global portfolio of customers and the increased scale of the Pace business, thus placing it in a strong position for long-term sustained growth.

The Board is delighted with the Group's progress and achievements to date with Pace France. Pace is expecting a significant uplift in volumes for the second half of 2008, although as expected the product mix, following the Pace France acquisition and new US cable business, will mean that gross margin will not be as high as that achieved in the first half, but will deliver a very attractive return on investment.

These factors, and ongoing improvements within the Pace business, leads the Board to reiterate its confidence in Pace's expectations for the 2008 and 2009 financial years.

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

We confirm that to the best of our knowledge:

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

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

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

By order of the Board

Anthony J Dixon

Company Secretary

28 July 2008

The Directors who, save as indicated below, all served throughout the period are:

- **Mike McTighe** – Chairman
- **Neil Gaydon** – Chief Executive Officer
- **Stuart Hall** – Chief Financial Officer
- **David McKinney** – Chief Operating Officer
- **Patricia Chapman-Pincher** – Non-executive director
- **Robert Fleming** – Non-executive director
- **Marten Fraser** – Non-executive director
- **Mike Inglis**[6] – Non-executive director

[6] Appointed 25 July 2008

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CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE 6 MONTHS ENDED 30 JUNE 2008

	Note	6 months ended 30 Jun 2008 £000	6 months ended 1 Dec 2007 £000	7 months ended 31 Dec 2007 £000
Revenue	2	231,052	190,043	249,875
Cost of sales		(182,618)	(150,680)	(199,040)
Gross profit		48,434	39,363	50,835
Administrative expenses:				
Research and Development expenditure		(22,194)	(16,426)	(19,293)
Other administrative expenses:				
Before exceptional items		(14,708)	(11,902)	(15,656)
Exceptional integration costs	3	(628)	-	-
Total Administrative expenses		(37,530)	(28,328)	(34,949)
Operating profit		10,904	11,035	15,886
Finance income		59	49	53
Finance expenses		(434)	(444)	(589)
Profit before tax		10,529	10,640	15,350
Tax (charge)/credit	4	(2,636)	160	(935)
Profit after tax		7,893	10,800	14,415
Attributable to:				
Equity holders of the Company		7,893	10,800	14,415
Basic earnings per ordinary share	5	3.1p	4.7p	6.3p
Diluted earnings per ordinary share	5	3.1p	4.6p	6.1p

All figures presented on pages 5 to 11, for the 6 months ended 30 June 2008 and 1 December 2007, are unaudited. The figures in respect of the 7 months ended 31 December 2007 are extracted from the audited financial statements for that period.

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CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AT 30 JUNE 2008

	Note	30 Jun 2008 £000	1 Dec 2007 £000	31 Dec 2007 £000
ASSETS				
Non Current Assets				
Property, plant and equipment		11,180	8,693	8,621
Intangible assets – goodwill and related acquisition intangibles	7	74,783	9,436	9,436
Intangible assets – development expenditure		31,583	15,514	15,882
Available for sale financial assets		349	349	349
Deferred tax assets		3,474	6,094	5,059
Total Non Current Assets		121,369	40,086	39,347
Current Assets				
Inventories		33,937	52,411	28,668
Trade and other receivables		138,115	66,532	102,382
Cash and cash equivalents		13,669	-	-
Total Current Assets		185,721	118,943	131,050
Total Assets		307,090	159,029	170,397
EQUITY				
Issued capital		14,934	11,680	11,684
Share premium		36,885	36,885	36,885
Merger reserve		55,490	-	-
Translation reserve		5	311	425
Retained earnings		27,008	14,789	18,608
Total Equity		134,322	63,665	67,602
LIABILITIES				
Non Current Liabilities				
Other payables		3,937	-	-
Interest bearing loans and borrowings		-	102	-
Deferred tax liabilities		4,645	-	-
Provisions	6	14,748	10,804	12,487
Total Non Current Liabilities		23,330	10,906	12,487
Current Liabilities				
Trade and other payables		135,905	75,078	72,625
Current tax liabilities		739	461	460
Interest bearing loans and borrowings		-	4,050	12,094
Provisions	6	12,794	4,869	5,129
Total Current Liabilities		149,438	84,458	90,308
Total Liabilities		172,768	95,364	102,795
Total Equity and Liabilities		307,090	159,029	170,397

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Merger reserve	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 2 June 2007	11,659	36,751	-	227	2,300	50,937
Profit for the period	-	-	-	-	10,800	10,800
Currency translation adjustments	-	-	-	84	-	84
Total income and expense for the period	-	-	-	84	10,800	10,884
Deferred Tax adjustment	-	-	-	-	606	606
Employee share incentive charges	-	-	-	-	424	424
Movement in employee share trusts	-	-	-	-	659	659
Issue of shares	21	134	-	-	-	155
Balance at 1 December 2007	11,680	36,885	-	311	14,789	63,665
Profit for the period	-	-	-	-	3,615	3,615
Currency translation adjustments	-	-	-	114	-	114
Total income and expense for the period	-	-	-	114	3,615	3,729
Employee share incentive charges	-	-	-	-	146	146
Movement in employee share trusts	-	-	-	-	58	58
Issue of shares	4	-	-	-	-	4
Balance at 31 December 2007	11,684	36,885	-	425	18,608	67,602
Profit for the period	-	-	-	-	7,893	7,893
Currency translation adjustments	-	-	-	(420)	-	(420)
Total income and expense for the period	-	-	-	(420)	7,893	7,473
Employee share incentive charges	-	-	-	-	461	461
Movement in employee share trusts	-	-	-	-	46	46
Issue of shares	3,250	-	55,490	-	-	58,740
Balance at 30 June 2008	14,934	36,885	55,490	5	27,008	134,322

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CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
FOR THE 6 MONTHS ENDED 30 JUNE 2008

	6 months ended 30 Jun 2008 £000	6 months ended 1 Dec 2007 £000	7 months ended 31 Dec 2007 £000
Cash flows from operating activities			
Profit before tax	10,529	10,640	15,350
Adjustments for:			
Share based payments charge	461	424	570
Depreciation of property, plant and equipment	2,240	2,130	2,483
Amortisation of development expenditure	8,449	8,622	9,958
Loss on sale of property, plant and equipment	13	94	136
Net financial charges	375	395	536
Movement in trade and other receivables	22,747	(13,971)	(49,874)
Movement in trade and other payables	(5,953)	15,295	12,828
Movement in inventories	4,793	(27,143)	(3,400)
Movement in provisions	(507)	1,608	3,551
Cash generated from/(used in) operations	43,147	(1,906)	(7,862)
Interest paid	(396)	(319)	(468)
Tax paid	(774)	(181)	(242)
Net cash generated from/(used in) operating activities	41,977	(2,406)	(8,572)
Cash flows from investing activities			
Purchase of property, plant and equipment	(2,625)	(4,153)	(4,258)
Acquisition fees	(3,134)	-	-
Development expenditure	(10,881)	(10,466)	(12,170)
Interest received	59	49	53
Net cash used in investing activities	(16,581)	(14,570)	(16,375)
Cash flows from financing activities			
Proceeds from issue of share capital	224	155	159
Proceeds from exercise of employee share options	46	659	717
Repayment of loans	-	-	(159)
Net cash generated from financing activities	270	814	717
Net change in cash and cash equivalents	25,666	(16,162)	(24,230)
Cash and cash equivalents at start of period	(12,094)	12,049	12,049
Effect of exchange rate fluctuations on cash held	97	63	87
Cash and cash equivalents at end of period	13,669	(4,050)	(12,094)

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NOTES

1. BASIS OF PREPARATION

BASIS OF PREPARATION

This unaudited interim financial information is for the 6 month period ending 30 June 2008 and is prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and under the historical cost convention as modified by the revaluation of derivative instruments.

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the 7 month financial period ended 31 December 2007.

INTERIM FINANCIAL INFORMATION

The interim financial information for the 6 month periods ended 30 June 2008 and 1 December 2007 has not been audited but has been reviewed by the auditors. Their review report for the 6 month period ended 30 June 2008 is set out on page 18. Figures for the 7 month period ended 31 December 2007 are extracted from the Company's statutory financial statements for that financial year. Those financial statements have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY

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

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

Warranties

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

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

Royalties

Pace's products incorporate third party technology, usually under licence. Inadvertent actions may expose Pace to the risk of infringing third party intellectual property rights. Potential claims can still be submitted many years after a product has been deployed. Any such claims are always vigorously defended.

A provision for royalties is recognised where the owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. Having taken legal advice, the Board considers that there are defences available that should mitigate the amounts being sought. The Group will vigorously negotiate or defend all claims but, in the absence of agreement, the amounts provided may prove to be different from the amounts at which the potential liabilities are finally settled. The provision is based on the latest information available.

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SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY (CONTINUED)

Contingent liabilities

1. EU Import duty classification

Pace, along with other set top box manufacturers and broadcasters, has continued to monitor the potential re-interpretation by European Union customs authorities of customs regulations that could result in the extension of import duties to interactive set-top boxes manufactured outside, but imported into, the EU. On 7th May 2008 the Nomenclature Committee of the European Commission issued an Explanatory Note "EN" (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the European Union. As a consequence, Pace is potentially exposed to a retrospective Customs Duty liability in respect of such set-top boxes it has imported.

Having previously obtained Binding Tariff Information ("BTI") rulings from HMRC, which provide protection in respect of much of the potential period of retrospective application of duty on relevant products and having taken legal advice, Management's opinion is that the retrospective application of the Explanatory Note would not be supportable in law. Accordingly Pace intends, in common with other affected importers, to appeal any retrospective assessment made and to defend its position on this matter.

As of the date of this announcement, no assessment has been received from HMRC and it is not clear how any potential assessment will be computed. In the event that an assessment is made for import duty relating to imports prior to 7 May 2008, management's best estimate is that no material outflow of economic benefit would be required to discharge this obligation. As such, at 30 June 2008 any potential liability should be considered contingent.

2. Writ Issued against Company

A writ has been issued against the Company by a former customer relating to the supply of set top boxes in 2000/01. The amount claimed is circa $7.2m. The Directors believe that they have good defences to the claim and therefore, in the absence of any liability, no provision has been made. In addition on 15 July 2007 Pace filed a counterclaim for circa $10m against this former customer and a related third party.

GOING CONCERN

The Group has in place borrowing facilities to January 2010, based upon 85% of relevant trade debtors, as adjusted, up to a maximum of £35m. These facilities are subject to financial performance covenants.

The Board has prepared a working capital forecast based upon assumptions as to trading and has concluded that the Group has adequate working capital, will meet the financial performance covenants and that therefore it is appropriate to use the going concern basis of preparation for this financial information.

CHANGE OF YEAR END

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

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2 Revenue

	6 months ended 30 Jun 2008 £000	6 months ended 1 Dec 2007 £000	7 months ended 31 Dec 2007 £000
The geographical analysis of revenue by destination is as follows:			
United Kingdom	31,453	41,752	48,451
Continental Europe	76,468	33,981	41,107
Far East and Australasia	31,896	14,765	15,586
North America	79,462	99,545	144,731
South and Latin America	7,130	-	-
Rest of world	4,643	-	-
	231,052	190,043	249,875

The Directors have undertaken a review of the Group's continuing operations and its associated business risks and consider that the continuing operations should be reported as a single business segment. The Directors consider that the continuing operations represent one product offering with similar risks and rewards and should be reported as a single business segment in line with the Group's internal reporting framework.

3 Exceptional items

	6 months ended 30 Jun 2008 £000	6 months ended 1 Dec 2007 £000	7 months ended 31 Dec 2007 £000
Restructuring, redundancy and integration costs in Pace France	(628)	-	-

Pace France is the acquired set-top box and connectivity solutions business of Royal Philips Electronics.

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4 Tax (charge)/credit

	6 months ended 30 Jun 2008 £000	6 months ended 1 Dec 2007 £000	7 months ended 31 Dec 2007 £000
The tax (charge)/credit is based on the estimated effective rate of taxation on trading for the period and represents:			
Current tax:			
Overseas tax charge	(1,051)	(360)	(420)
Total current tax charge	(1,051)	(360)	(420)
Deferred tax:			
Origination and reversal of timing differences	(2,009)	(257)	(1,367)
Adjustment in respect of previous periods	424	1,169	1,169
Effect of change in tax rate	-	(392)	(317)
Total deferred tax (charge)/credit	(1,585)	520	(515)
Tax (charge)/credit	(2,636)	160	(935)

5 Earnings per ordinary share

Basic earnings per ordinary share have been calculated by using profit after taxation, and the average number of qualifying ordinary shares of 5p in issue of 254,539,721 (2007: 228,286,371).

Diluted earnings per ordinary share vary from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted earnings are the same as basic earnings. The diluted number of qualifying ordinary shares was 258,832,041 (2007: 233,894,974).

6 Provisions

	Royalties under negotiation £000	Warranties £000	Total £000
At 31 December 2007	9,208	8,408	17,616
Acquisitions	-	7,847	7,847
Charge for the period	352	5,181	5,533
Utilised	(197)	(3,257)	(3,454)
At 30 June 2008	9,363	18,179	27,542
Due within one year	*-*	*12,794*	*12,794*
Due after more than one year	*9,363*	*5,385*	*14,748*

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7 Acquisition in the period

The acquired business in the six month period relates to the set-top box and connectivity solutions business of Royal Philips Electronics ("Pace France"). Pace France employs approximately 335 staff predominantly based in France and is a leading designer and supplier of a range of digital TV products including satellite, cable, terrestrial and IPTV set-top box products. A 100% interest was purchased on 21st April 2008.

The consideration payable is made up of:

	£000
Share issued (64,481,049) at market value	58,517
Deferred and contingent consideration	3,937
Acquisition fees	3,134
Acquisition consideration payable	65,588

The acquisition has been accounted for using the purchase method as required by IFRS 3.

The purchase agreement includes a cash adjustment depending on the level of working capital on the date of acquisition. For this purpose the vendor will prepare an audited balance sheet which has yet to be received. The Group has 30 working days to consider it before the cash adjustment is finalised. In addition, the Group has yet to finalise the valuation of intangible assets acquired and therefore the total of intangible assets and goodwill is shown as one number below.

The integration exercise has concentrated to date on maximising the profitability and operating efficiency of Pace France and it may be that other fair value adjustments will arise in the six month ended 31 December 2008.

Goodwill and fair value adjustments have been necessarily calculated on a provisional basis and are expected to be finalised for the Group Financial Statements for the year ended 31 December 2008.

The provisional fair value of net assets/(liabilities) acquired and goodwill and intangible assets arising was as follows:

	Book value prior to acquisition £000	Fair value adjustments £000	Fair value of net assets/ (liabilities) acquired £000
Intangible fixed assets - development expenditure	16,450	(3,181)	13,269
Tangible fixed assets	2,187	-	2,187
Deferred tax liability	(5,758)	1,113	(4,645)
Current assets	68,543	-	68,543
Current liabilities	(70,095)	(1,171)	(71,266)
Non-current liabilities	(6,284)	(1,563)	(7,847)
Total net assets acquired	5,043	(4,802)	241
Total investment cost (as above)			65,588
Provisional goodwill and intangible assets arising			65,347

The fair value adjustments include an adjustment to capitalised development expenditure to align accounting methodologies and the establishment of provision for onerous lease and warranty costs.

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7 Acquisition in the period (continued)

From the date of acquisition (21 April 2008) to 30 June 2008, the contribution of Pace France to the Group results was as follows:

	£000
Revenue	75,407
Profit before tax	2,055

Proforma results for the Group for the half year ended 30 June 2008, on the basis that the acquisition had been made at the beginning of the period, are as follows:

	£000
Revenue	350,597
Profit before tax and exceptional items	9,053

These amounts are before the impact of amortising any acquired intangibles that have not yet been recognised separately from goodwill.

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INDEPENDENT REVIEW REPORT TO PACE PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the condensed consolidated interim income statement, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of changes in shareholders' equity, the condensed consolidated interim cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Leeds
28 July 2008

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