



FM 35904
IS 89282



EMS 60224



INVESTOR IN PEOPLE

Pace Micro Technology plc

Victoria Road
Saltaire BD18 3LF
England

Tel: +44 (0)1274 532000
Fax: +44 (0)1274 532010
www.pacemicro.com

25 YEARS
BRINGING TECHNOLOGY HOME



Pace Micro Technology plc results for the full year ended 2 June 2007

24 July 2007

Saltaire, UK, 24 July 2007, Pace Micro Technology, the leading independent developer of digital TV technologies for the global payTV industry, announces its audited financial results for the full year ended 2 June 2007.

Operating Highlights

- Significant success in North America with ongoing solid performance from EMEA and APAC regions
- Volume shipments increased by 77% to 3.9m set-top boxes (2006: 2.2m)
- Growing operator demand for specialist high definition technology across all main payTV markets
- Increased consumer demand for digital TV, high definition and PVR products
- Company restructure and new management team are delivering results

Financial Highlights

- Revenues more than doubled to £386.5m (2006: £178.1m)
- Full year gross margin of 15.9% (2006: 18.0%), with uplift in H2 to 16.6% (H1 2006/07: 15.3%)
- Profit before tax and exceptional items £6.1m (2006: loss £15.6m)
- Earnings per share of 3.0p (2006: loss per share 13.0p)
- Net cash position £11.9m (2006: net borrowings £6.1m)
- On track to deliver against expectations for shortened financial year ending 31 December 2007

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

“These results reflect our ability to support many of the world’s leading payTV operators with high value, specialist technology. Our company wide restructure and new management team is delivering greater customer focus with an improved operating model, and we have begun to see the benefits of this work. With flat panels, digital TV, high definition and PVR all becoming ‘must haves’ for the consumer, alongside increasing competition for subscribers amongst the operator community, the consequent demand for set top boxes gives us an exciting market to address and one that we are well positioned to capture.”

There will be an analyst presentation on 24 July 2007 at 9.00am at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.

Contacts

Fiona Laffan/Tim Williamson/Raphael Mazet
Brunswick

+44 20 7404 5959

Neil Gaydon/Stuart Hall/Helen Kettleborough
Pace Micro Technology

Today only – +44 20 7404 5959
Thereafter – +44 1274 538005

Overview

Pace is a specialist technology company delivering digital TV products to the world's most successful payTV operators. The Group is building on the new foundations established by the management team over the last year and is delivering against plan.

The balance of Pace's global shipments has shifted with over 50% of the Group's revenues now coming from the North American market, the result of Pace's strategy to target the world's largest payTV operators and early investment in new technology platforms. At the same time organisational changes implemented over the last year, which have restructured Pace's business around the technologies and needs of its customers, are beginning to deliver encouraging results.

Improving profitability is a key priority and over the year Pace has returned to profit, with profit before tax and exceptional items of £6.1m (2006: loss £15.6m) on revenues that more than doubled to £386.5m (2006: £178.1m). The business restructure that took place in 2006 included the establishment of Customer Account Teams, which are responsible for all aspects of the customer relationship, including product development. As a result, product execution is better, quality is increasing and margins are improving. The full benefits are expected over the next 12 months as these improvements work through the typical set-top box development cycle.

North America is the world's largest market for digital television technology and Pace is making good progress in both satellite and cable. Significantly, Pace commenced new product shipments to DirecTV and Comcast in the US, two of the world's largest payTV operators. During the year, Pace delivered its high definition (HD) MPEG-4 personal video recorder (PVR) to DirecTV and its standard definition (SD) PVR to Comcast. The Group also now has over 30 North American cable customers, selling a broad range of SD and HD products and has launched its CableCARD range, anticipating regulatory changes in the US market.

In EMEA and APAC Pace enjoyed solid revenue and volume growth as additional business was secured with new and existing customers from basic to high specification products. The market dynamics remain attractive with the prospect of analogue switch-off in some countries and increasing competition for subscribers in many key markets.

Global consumer demand for high definition and PVR products and services is one of the most important drivers in the payTV market. According to Screen Digest there will be over 228m homes by 2010 with high definition ready flat panel TVs and over 200 high definition channels, requiring a high definition set-top box to access them. There is also strong competition between payTV operators and new market entrants such as telcos providing video services over broadband. This will drive demand for high definition and PVR services as operators use them to differentiate their platforms to win and retain subscribers. Pace's strategy of building long term relationships with the world's leading payTV operators, as well as being first to market with new technologies, means it is well placed to serve those markets and deliver returns for shareholders.

Results and Financial Review

The focus on delivery and customers has started to show improved results. Shipments increased by 77% to 3.9m set-top boxes (2006: 2.2m) and revenues more than doubled to £386.5m (2006: £178.1m). Average selling prices have risen from £81 to £100, reflecting the growing demand for higher specification products such as HD PVR, a demand Pace has been able to meet due to its ongoing early investment in new technology.

While gross margin improved from 15.3% in the first half to 16.6% in the second half, the full year outcome was lower than last year at 15.9% (2006: 18.0%). As expected, this was a feature of some high volume products, in particular for the US market, with lower margins. In addition, the full benefit of the Group's improvements to product design and operations have not impacted some of the older and less cost-efficient designs still in production.

Overheads, excluding restructuring costs and the impact of IAS38, were £55.7m (2006: £55.6m). R&D spend before capitalization of development expenditure in line with IAS38 was £31.3m (2006: £28.7m) as Pace continued to invest in higher specification products such as HD PVR. The IAS38 adjustment was a net credit of £2.4m (2006: net credit £7.3m) as the delays in launching certain products in 2006 have been resolved during 2007. Profit before tax and exceptional charges was £6.1m (2006: loss of £15.6m). Exceptional costs were £1.2m (2006: £11.9m) representing the remaining costs of the 2006 restructuring and organisational changes. The interest charge was £2.2m (2006: credit £0.6m) due to the increased borrowing position during the year and the tax credit was £1.8m (2006: charge £1.3m), reflecting an increased recognition of deferred tax assets relating to brought forward tax losses. Retained profit for the year was £6.8m (2006: loss £28.8m). The Board does not recommend the payment of a dividend.

The net working capital position improved in the year by £13.3m (2006: worsened £1.3m) due to a combination of inventory reduction £9.5m (2006: increase £24.7m), debtor increase £10.2m (2006: decrease £9.5m) and creditor increase £14.0m (2006: increase £13.8m). Inventory reduced principally as products developed in the previous financial year were delivered to customers. Debtors increased due to turnover more than doubling, however debtor days improved slightly to 46 days (2006: 48 days).

During the year the Group negotiated a new Asset Based Lending Facility of £35m secured principally against debtors. The Group finished the period with a significant improvement in its net cash position at £11.9m (2006: net borrowings £6.1m), due mainly to the return to profitability within the period and the reduction in inventory levels following the resolution of delayed product approval in the prior year.

Regional Operating Review

During the first half of the year, Pace successfully worked through some challenges faced by the entire industry in the transition to MPEG-4-based high definition platforms, which had impacted deliveries of some new and highly complex set-top box products. The resolution of these issues, combined with changes put in place by the new management team, is enabling the business to move forward.

Americas

Shipments into the Americas increased six-fold to 1.2m units (2006: 200,000) as Pace developed its relationships with DirecTV and Comcast, two of the world's largest payTV operators, and executed well on its contracts.

For DirecTV, Pace is delivering its MPEG-4 HD PVR and has order visibility through to mid-2008. For Comcast Pace is delivering the SD PVR and there are committed orders in place for the rest of 2007. At the same time Pace's North American cable customer base has expanded to over 30 operators, selling a broad range of SD and HD products.

As of 1 July 2007 US cable set-top boxes must, under Federal Communications Commission (FCC) regulations, incorporate 'separable security', similar to the card-based conditional access systems used by many European payTV operators. To meet the new market requirements Pace has developed a full range of CableCARD products (it includes SD, SD PVR, HD, HD PVR and analogue options). Pace's CableCARD boxes are also fully OpenCable Application Platform (OCAP) compatible.

OCAP is a software layer many operators intend to introduce over the next few years to improve software compatibility among various set-top vendors. Unlike other potential new entrants into the US cable set-top market, Pace has the necessary licences and software assets to sell boxes running today's applications and OCAP applications in the future.

Pace launched its CableCARD range in June 2007 and all products are now commercially available and shipping to multiple customers. Pace's ability to launch CableCARD products so quickly to multiple operators with varying software requirements, was enabled by a core asset that took over three years to develop, a Pace middleware called Engineware™. The switch to CableCARD has influenced operator buying patterns across the market. This was anticipated and factored into our forecasts as there will be a lower level of box orders during the third calendar quarter of 2007.

Overall the Group is very pleased with the progress that has been made in the Americas given the particularly high barriers to market entry. Progress has been both in terms of the breadth and depth of customer relationships and the product range, which addresses a wide range of customer needs.

EMEA and APAC

Pace has achieved long-term strong performance in these markets. Shipments into the EMEA region increased by over 37% to 2.2m set-top boxes (2006: 1.6m), with APAC shipments increasingly slightly to 432,000 (2006: 401,000) as additional business was secured with new and existing customers. In EMEA Pace's customers comprise a large number of this region's major payTV operators, including BSkyB, Sky Italia, Viasat and UPC. In Australia and New Zealand Pace works with the majority of significant players, Foxtel, Optus and Sky New Zealand. At Foxtel, Pace is the lead supplier and has recently celebrated its one millionth box shipment.

During the year, Pace won new business with the majority of its customers for both basic boxes and standard definition PVRs, with an increasing number also ordering HD PVR designs for 2007 and 2008. Of the new HD PVR business that has been signed, Digiturk, a major Turkish operator, will be the first to market toward the end of 2007. The product range we are developing for Digiturk introduced a new technical integration challenge through its use of the Irdeto conditional access platform and OpenTV middleware. The Group expects that a number of other payTV operators in this region will want to utilise a similar combined solution.

Pace has a proud history of leading new technology developments in these markets and has created a strong product range. In addition to the growing demand for HD and HD PVR, there is a new trend for integrated satellite and IP enabled hybrid products and Pace's product capability has been showcased at European trade shows during the year.

Board and Executive appointments

Stuart Hall, joined the Pace Board in April 2007 as Chief Financial Officer. Previously Stuart was Finance Director at IQE plc and has held a number of Finance Director positions. In addition David McKinney, Pace's Chief Operating Officer, who has been with the Company for over one and a half years, was appointed to the Board last September.

Outlook

The Board is pleased that this year significant improvements have already been shown against key metrics and short-term goals for the business in North America have been achieved. Going forward, senior management is working with a highly motivated and accountable organisation, one that is focused on delivering and innovating leading products for its customers. Through this focus, on the Group's strategy and structure, Pace is much better placed to address the key company targets of margin performance, technology innovation and operational excellence.

The Board acknowledges that while significant progress has been made, the Group is not complacent as there remains much to do as this is a highly competitive and difficult market for all suppliers to predict. Pace is working hard to deliver against our critical success factors in an effort to try and deliver a more predictable business within this market.

The Board is pleased with the progress of the last year, and is confident that Pace is on track to meet its expectations for the shortened financial year to 31 December 2007.

Neil Gaydon

Chief Executive Officer

24 July 2007

CONSOLIDATED INCOME STATEMENT
FOR THE 52 WEEKS ENDED 2 JUNE 2007

| | Note | 52 weeks ended 2 June 2007 £000 | 52 weeks ended 3 June 2006 £000 |
|--|------|--|--|
| Revenue | 2 | 386,513 | 178,095 |
| Cost of sales: | | | |
| Before exceptional items | | (324,865) | (145,984) |
| Exceptional items | 3 | - | (5,500) |
| Total Cost of sales | | <u>(324,865)</u> | <u>(151,484)</u> |
| Gross profit | | 61,648 | 26,611 |
| Administrative expenses: | | | |
| Research and Development expenditure: | | | |
| Before exceptional items | | (28,949) | (21,433) |
| Exceptional items | 3 | - | (3,500) |
| Other administrative expenses: | | | |
| Before exceptional items | | (24,379) | (26,864) |
| Exceptional items | 3 | (1,208) | (2,383) |
| Total Administrative expenses | | <u>(54,536)</u> | <u>(54,180)</u> |
| Other operating expenses: | | | |
| Impairment loss on trade investment | 3 | - | (505) |
| Operating profit/(loss) | | 7,112 | (28,074) |
| Financial income – interest receivable | | 138 | 755 |
| Financial expenses – interest payable | | (2,325) | (131) |
| Profit/(loss) before tax | | 4,925 | (27,450) |
| Tax credit/(charge) | 4 | 1,841 | (1,334) |
| Profit/(loss) after tax | | <u>6,766</u> | <u>(28,784)</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 6,766 | (28,784) |
| Basic earnings/(loss) per ordinary share | 5 | 3.0p | (13.0)p |
| Diluted earnings/(loss) per ordinary share | 5 | 3.0p | (13.0)p |

CONSOLIDATED BALANCE SHEET

AT 2 JUNE 2007

| | Note | 2 June 2007 £000 | 3 June 2006 £000 |
|---|------|---------------------|---------------------|
| ASSETS | | | |
| Non Current Assets | | | |
| Property, plant and equipment | | 6,508 | 7,671 |
| Intangible assets – goodwill | | 9,436 | 9,436 |
| Intangible assets – development expenditure | | 13,670 | 11,286 |
| Other investments | | 349 | 349 |
| Deferred tax assets | | 4,968 | 2,887 |
| Total Non Current Assets | | 34,931 | 31,629 |
| Current Assets | | | |
| Inventories | | 25,268 | 34,792 |
| Trade and other receivables | | 52,563 | 42,337 |
| Cash and cash equivalents | | 12,049 | - |
| Total Current Assets | | 89,880 | 77,129 |
| Total Assets | | 124,811 | 108,758 |
| EQUITY | | | |
| Issued capital | | 11,659 | 11,576 |
| Share premium | | 36,751 | 36,246 |
| Translation reserve | | 227 | 240 |
| Retained earnings | | 2,300 | (5,595) |
| Total Equity | | 50,937 | 42,467 |
| LIABILITIES | | | |
| Non Current Liabilities | | | |
| Interest bearing loans and borrowings | | 99 | 154 |
| Provisions | 6 | 9,646 | 9,284 |
| Total Non Current Liabilities | | 9,745 | 9,438 |
| Current Liabilities | | | |
| Trade and other payables | | 59,368 | 45,406 |
| Current tax liabilities | | 282 | 3 |
| Interest bearing loans and borrowings | | 60 | 5,937 |
| Provisions | 6 | 4,419 | 5,507 |
| Total Current Liabilities | | 64,129 | 56,853 |
| Total Liabilities | | 73,874 | 66,291 |
| Total Equity and Liabilities | | 124,811 | 108,758 |

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital £000 | Share premium £000 | Translation reserve £000 | Retained earnings £000 | Total equity £000 |
|---|--------------------------|--------------------------|--------------------------------|------------------------------|-------------------------|
| Balance at 4 June 2005 | 11,349 | 35,677 | 150 | 22,576 | 69,752 |
| Loss for the period | - | - | - | (28,784) | (28,784) |
| Currency translation adjustments | - | - | 90 | - | 90 |
| Total income and expense for the period | - | - | 90 | (28,784) | (28,694) |
| Employee share incentive charges | - | - | - | 493 | 493 |
| Movement in employee share trusts | - | - | - | 120 | 120 |
| Issue of shares | 227 | 569 | - | - | 796 |
| Balance at 3 June 2006 | 11,576 | 36,246 | 240 | (5,595) | 42,467 |
| Profit for the period | - | - | - | 6,766 | 6,766 |
| Currency translation adjustments | - | - | (13) | - | (13) |
| Total income and expense for the period | - | - | (13) | 6,766 | 6,753 |
| Employee share incentive charges | - | - | - | 684 | 684 |
| Movement in employee share trusts | - | - | - | 445 | 445 |
| Issue of shares | 83 | 505 | - | - | 588 |
| Balance at 2 June 2007 | 11,659 | 36,751 | 227 | 2,300 | 50,937 |

CONSOLIDATED CASH FLOW STATEMENT

FOR THE 52 WEEKS ENDED 2 JUNE 2007

| | 52 weeks ended 2 June 2007 £000 | 52 weeks ended 3 June 2006 £000 |
|--|--|--|
| Cash flows from operating activities | | |
| Profit/(loss) before tax | 4,925 | (27,450) |
| Adjustments for: | | |
| Share based payments charge | 684 | 493 |
| Depreciation of property, plant and equipment | 4,277 | 4,116 |
| Amortisation of development expenditure | 14,172 | 13,296 |
| Impairment of trade investment | - | 505 |
| Loss on sale of property, plant and equipment | 90 | 241 |
| Net financial charge/(income) | 2,187 | (624) |
| Movement in trade and other receivables | (9,966) | 9,490 |
| Movement in trade and other payables | 13,794 | 13,871 |
| Movement in inventories | 9,524 | (24,657) |
| Movement in provisions | (826) | 51 |
| Cash generated from/(used in) operations | 38,861 | (10,668) |
| Interest paid | (2,361) | (142) |
| Tax paid | (124) | (258) |
| Net cash generated from/(used in) operating activities | 36,376 | (11,068) |
| Cash flows from investing activities | | |
| Acquisition of trade investments | - | (180) |
| Purchase of property, plant and equipment | (3,256) | (5,862) |
| Development expenditure | (16,556) | (17,132) |
| Proceeds from sale of property, plant and equipment | - | 5 |
| Interest received | 138 | 842 |
| Net cash used in investing activities | (19,674) | (22,327) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 588 | 796 |
| Proceeds from exercise of employee share options | 445 | 120 |
| Repayment of loans | (55) | (50) |
| Net cash generated from financing activities | 978 | 866 |
| Net change in cash and cash equivalents | 17,680 | (32,529) |
| Cash and cash equivalents at start of period | (5,880) | 26,647 |
| Effect of exchange rate fluctuations on cash held | 249 | 2 |
| Cash and cash equivalents at end of period | 12,049 | (5,880) |

NOTES

1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of derivative instruments.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY

The Group's main accounting policies affecting its results of operations and financial condition are set out in the Group's financial statements. Judgements and assumptions have been required by management in applying the Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Inventory and purchase commitments

As referred to in the Business Environment section below, the Group customarily has a level of inventory and purchase commitments, the realisation of which is not certain. As noted in the Annual Report for the year ended 3 June 2006, and as a result of delays in the launch of certain products for the North American market, the Group had stock and purchase commitments for these products of £23m and £60m respectively where there were not corresponding customer approvals or purchase agreements. As a result of subsequent approvals and shipments, the Group's net exposure to such North American product has reduced to £2.6m at 2 June 2007. The Directors have considered the ongoing sales and consider that this value is likely to be realised.

Going concern

The Group has put in place new 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 as well as building in the other circumstances noted in the Business Environment section below. The Board has also modelled a number of alternative business scenarios. Based upon these the Board 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.

Warranties

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 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.

EU Import duty classification

Pace, along with other set top box manufacturers and broadcasters, continues 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. No final decision has been made so it remains impossible to quantify any potential impact. However, Pace has analysed its options against the range of possible outcomes and has plans in place to manage these outcomes.

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.

FINANCIAL INFORMATION

The financial information set out in this document does not constitute the company's statutory accounts for the 52 week period ended 2 June 2007, or the 52 week period ended 3 June 2006, but is derived from the 2007 accounts. Statutory accounts for 2006 have been delivered to the Registrar of Companies, and those for 2007, will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

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 follows 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.

Pace will publish interim accounts for the period ended 30 November 2007 in January 2008 and audited financial statements for the 30 week period ending 31 December 2007 shortly thereafter.

BUSINESS ENVIRONMENT

Priorities

The Group continues to focus on:

- Operational excellence to deliver a range of quality products on time and profitably for Pace's global customer base.
- Growing deeper customer relationships by ensuring Pace has the products and services needed in order for them to be competitive and to improve their average revenue per user (ARPU).
- Utilising Pace's core skills to create innovative technology and solutions that will excite the market and drive long-term business growth.

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 and its risks 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 or more) for component supply and manufacture, typical of the industry. In the US market, in particular, customers firm order lead times may be less than the component lead times. There are third party delivery risks, for example, difficulties in the delivery of components or software code, and the final go ahead for manufacture and firm contractual commitments is usually dependent on product approvals and acceptance both from the operator and sometimes from third parties. In addition, there is a requirement 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 customers 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 sale 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 progressively to cover cash flows when these are sufficiently certain and to seek a greater percentage of US dollar sales to provide a commercial hedge against currency exposures.

Interest Rate Risk

The Group's policy is to review regularly the terms of its available short term borrowing facilities and to assess individually and manage each long-term borrowing commitment accordingly. The Group does not currently take out any interest rate swaps.

Credit Risk

Management has a credit insurance policy in place, which provides cover over most debtors, subject to excesses, and the exposure to credit risk is monitored on an ongoing basis. The Group does not require collateral in respect of financial assets.

Deposit investments are undertaken only in liquid securities and only with counterparties that have a credit rating equal or better than the Group.

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 last 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.

To improve business effectiveness, so the Group is better able to manage the significant volume of development work currently underway and in plan, there has been a significant internal re-organisation programme. The programme has focused on organisation structures and is now focused on business processes; in particular improving the effectiveness of Pace's development process both in effectiveness of delivery and in the improvement of product cost.

Third Party and Other Risks

The business environment in respect of the use of third party technology and of product warranties is described under "Significant judgements, key assumptions and estimation uncertainty" above.

The Group outsources its manufacture to third party specialist electronics manufacturers, in particular to Solectron Corporation and to Asustek.

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. The Company has managed the implementation of the EU WEEE and RoHs directives in the period.

2 Revenue

| | 52 weeks ended 2 June 2007 £000 | 52 weeks ended 3 June 2006 £000 |
|---|--|--|
| The geographical analysis of revenue by destination is: | | |
| United Kingdom | 69,487 | 64,446 |
| Continental Europe | 62,693 | 56,517 |
| Asia Pacific | 30,888 | 38,309 |
| North America | 223,239 | 18,823 |
| Rest of the World | 206 | - |
| | <hr/> | <hr/> |
| | 386,513 | 178,095 |

3 Exceptional items

| | 52 weeks ended 2 June 2007 £000 | 52 weeks ended 3 June 2006 £000 |
|---|--|--|
| Exceptional charge in respect of US product | - | 9,000 |
| Restructuring and reorganisation costs | 1,208 | 2,383 |
| Impairment loss on trade investment | - | 505 |
| | <hr/> | <hr/> |
| | 1,208 | 11,888 |

The restructuring and reorganisation charges relate to a restructuring programme within the Group.

An exceptional charge was made in the 52 weeks ended 3 June 2006 following the delay in the delivery of US product, which charge was reflected as a £5.5m inventory write down and a £3.5m impairment charge against capitalised development costs. The US product relates to the HD PVR product for the US cable market, where delays have affected the anticipated product life. The impairment loss in the 52 weeks ended 3 June 2006 related to the Company's investment in VegaStream Limited.

4 Tax credit/(charge)

| | 52 weeks ended 2 June 2007 £000 | 52 weeks ended 3 June 2006 £000 |
|--|--|--|
| The tax credit/(charge) is based on the estimated effective rate of taxation on trading for the period and represents: | | |
| United Kingdom corporation tax at 30% | - | - |
| Overseas tax | (240) | (212) |
| Deferred tax | 2,081 | (1,122) |
| | <hr/> | <hr/> |
| | 1,841 | (1,334) |

5 Earnings/(loss) per ordinary share

Basic earnings/(loss) per ordinary share have been calculated by reference to the profit/(loss) after taxation, and the average number of qualifying ordinary shares of 5p in issue of 225,501,387 (2006: 221,742,588).

Diluted earnings/(loss) per ordinary share vary from basic earnings/(loss) per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted earnings are the same as basic earnings/(loss). The diluted number of qualifying ordinary shares was 226,873,420 (2006: 224,618,352).

6 Provisions

| | Royalties under negotiation £000 | Onerous contracts £000 | Warranties £000 | Total £000 |
|-------------------------------------|---|------------------------------|--------------------|---------------|
| At 3 June 2006 | 6,262 | 493 | 8,036 | 14,791 |
| Charge for the period | 1,854 | - | 4,134 | 5,988 |
| Utilised | (643) | (493) | (5,578) | (6,714) |
| At 2 June 2007 | <u>7,473</u> | <u>-</u> | <u>6,592</u> | <u>14,065</u> |
| <i>Due within one year</i> | - | - | 4,419 | 4,419 |
| <i>Due after more than one year</i> | 7,473 | - | 2,173 | 9,646 |

Circulation to shareholders

The Annual Report and Accounts will be posted to shareholders as soon as practicable and will be available to the public from the Company's registered office at Pace Micro Technology plc, Victoria Road, Saltaire, West Yorkshire, BD18 3LF.