

IQE plc

Preliminary Results for the Year Ended 31 December 2004

IQE plc (IQE), the leading global outsource supplier of customised epitaxial wafers to the semiconductor industry, today announces its Group Preliminary Results for the year ended 31 December 2004.

KEY POINTS

- Full year revenue down **18.2%** at **£15.344m** (2003: £18.753m) as the weak dollar, selling price reductions and a weak third quarter impacted sales. In dollar terms, sales were down **8.5%** at **\$27.907m** (2003: \$30.490m)
- Wafer volumes increased by **27.3%** to approximately **140,000** units (2003: 110,000 units)
- Despite lower revenues, the loss on ordinary activities before taxation was reduced by **25.9%** to **£10.104m** (2003: £13.639m) as a result of tight cost control, cost reduction measures and continued improvement in operational efficiencies.
- Operating cash outflow reduced by **9.9%** at **£9.096m** (2003: £10.100m)
- Closing year end cash at **£9.923m** (2003: £21.738m)
- Operating cash breakeven run rate lowered to **£25.800m** revenue (2003: £41.400m) through continued improvements in operational efficiencies and substantial cost reduction programmes
- Won major outsourcing contract worth approximately \$25.000m over first two years for RF wireless applications, production commenced in last few weeks of 2004
- Positive customer feedback on strained silicon indicating substantial performance improvements, leading to patent applications on technology
- Prospects very good for significantly increased revenue in 2005

Commenting on the results, Dr Drew Nelson, President and CEO, said

“After some setbacks in our main market sectors during quarter three, the last few weeks of 2004 saw a significant upturn in business with the commencement of a major outsource contract, increased demand for RF products driven by renewed growth in the mobile handset marketplace, and the completion of some significant qualifications.

The winning of a major outsource contract worth around \$25.0m over the first two years has enabled the Group to exit the year with its largest order book for over twenty four months and an exit revenue run rate which will deliver substantially improved revenues in 2005. I am confident the Group can achieve its key initial objective of ongoing monthly cash generation in the near future with the outlook for 2005 being positive.”

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PRELIMINARY RESULTS 2004

1. INTRODUCTION

IQE has built a powerful position as a world leading supplier of advanced wafer products and wafer foundry services to the semiconductor industry. Our materials are found at the very heart of many leading-edge consumer, communication and computing applications including mobile handsets, PDAs, CD/DVD systems, satellite navigation devices, and voice and data communications systems. We provide bespoke wafers and manufacturing services in the form of atomically engineered semiconductor wafers, which are built to yield precisely defined electronic, optical and mechanical characteristics. Our materials are then fabricated by our customers to make the advanced electronic and optoelectronic components that drive virtually all of today's high-tech products and systems.

In addition, as established silicon technologies continue to be pushed to their limits, the use of new, highly advanced materials systems is absolutely key in enabling the major players to maintain their leading edge within this highly competitive, global landscape. To this end, IQE is an ideal development and production foundry partner. Having invested heavily in large scale state of the art manufacturing facilities and possessing a wealth of experience in advanced semiconductor materials development, the Group holds a unique position as a dedicated materials foundry covering the full range of semiconductor materials, strongly supporting the adoption of the outsourcing model.

2. OVERVIEW

Sales revenues increased at the start of the year but declined during the third quarter before recovering again strongly towards the end of the year. The main factors contributing to the decline in sales revenues were the weak dollar, aggressive pricing reductions to encourage further outsourcing and weakness in the optical component markets. However, the Group was able to more than offset the effect of lower revenues with increased operating efficiencies and a significantly reduced cost base which reduced the Group's losses compared with previous years. Capital expenditure and research and development costs remained low, principally because much of the investment in state of the art facilities and new product developments had already been incurred during previous periods.

Total shipments of III/V epiwafers, Si epiwafers and III/V substrates increased by 27% to around 140,000 units compared with around 110,000 units the previous year.

Major progress was made in winning new business, particularly in the fourth quarter. A major outsource deal was completed which is expected to be worth approximately \$25m over the first two years of the contract, with shipping of production volumes commencing during the last few weeks of the fourth quarter. In addition, a number of qualifications were successfully completed during 2004 and several others are due to be completed in the first half of 2005. As a result, IQE is now formally qualified to supply key materials for a range of optoelectronic components to manufacturers based in the Far East, and to a major defence contractor in the US for RF components. Several other key technical milestones were achieved including highly encouraging device results on IQE's proprietary strained silicon, achievement of the highest ever power output from a Vertical Cavity Laser, and demonstration of the world's first four band Quantum Well Integrated Photodetector (QWIP).

3. RESULTS

The Group's operating results are detailed in the Consolidated Profit and Loss Account and Consolidated Cash Flow Statements.

H2/2004 sales were £7.316m (H1/2004: £8.028m), which represented an 8.9% reduction compared with H1/2004. This was mainly due to the continuing weakness in the US dollar, an intended reduction in average selling prices to encourage further outsourcing, and a slower than expected recovery in some of the key markets in which IQE operates. Revenues for the full year were £15.344m (2003: £18.753m), which represented an 18.2% reduction compared with last year. The average exchange rate for 2004 was 11.7% worse than the average rate for last year at USD 1.8188/GBP (2003: USD 1.6280/GBP), which resulted in a significant reduction in the Group's sales line by approx £1.800m.

The gross loss in H2/2004 was £1.885m (H1/2004: loss £1.928m) and was equivalent to a gross loss of 17.5% (H1/2004: gross loss 24.0%). Gross loss for the full year was 24.9% at £3.813m (2003: gross loss 17.5% at £3.278m). Adverse exchange rates, sales price reductions and lower overall sales into key markets were the main reasons for a worsening in the Group's gross margin performance.

Significant cost savings were made in respect of research and development expenditure by focusing on only the most essential and cost effective programs. H2/2004 research and development costs were £0.354m (H1/2004: £0.481m). Research and development costs for the full year were £0.835m (2003: £1.839m), which represented 5.4% of sales. All research and development costs were expensed in the period.

Savings were also made in respect of selling, general and administration costs, which comprise distribution costs and other administrative expenses. H2/2004 selling, general and administration costs were £2.494m (H1/2004: £3.209m), which represented a 22.3% reduction compared with H1/2004. This included exceptional credits of £0.392m (H1/2004: exceptional charges £0.221m) in respect of the release of an onerous lease provision and the cost of staff redundancies at IQE Europe, IQE Inc and IQE Silicon. Selling, general and administration costs for the full year were £5.703m (2003: £8.299m), which included net exceptional credits of £0.171m (2003: exceptional charges £0.828m).

As a result of the above, H2/2004 operating loss before exceptional credits of £0.392m was £5.125m (H1/2004: £5.618m before exceptional charges of £0.221m), which represented an 8.8% reduction compared with H1/2004. The operating loss for the full year before exceptional credits of £0.171m was £10.522m (2003: loss £12.588m before exceptional charges of £0.828m). The pre tax loss for the full year was £10.104m (2003: pre tax loss £13.639m).

Cash management continued to be a priority for the Group throughout the period with the focus firmly concentrated on reducing operating costs and carefully managing the Group's working capital. However working capital, comprising stocks, debtors and creditors, increased in H2/2004 by £0.866m (H1/2004: increase £0.043m), which was mainly due to a reduction in creditors and the release of provisions. As a result, the operating cash outflow for H2/2004 was £0.186m less than H1/2004 at £4.456m (H1/2004: outflow £4.642m). The operating cash outflow for the full year was £9.096m (2003: outflow £10.100m).

Capital expenditure continued to be restricted to essential items only and totalled £0.214m in H2/2004 (H1/2004: £0.134m). Loan and lease repayments in H2/2004 totalled £1.148m (H1/2004: £1.589m), which reduced total borrowings at the end of the period to £3.160m (H1/2004: £4.346m). Gross cash on hand at the end of the period was £9.923m (H1/2004: £15.552m).

4. OPERATIONS

IQE Inc

IQE Inc had experienced a downturn in order volumes during the second and third quarters of the year as three of its major customers supplying into the wireless sector experienced unexpected declines in orders from a leading handset manufacturer. As a result, revenues for the first part of the year were less than originally expected. However, all three customers experienced an upturn during the last two months of the year and this fed through to increased orders and sales levels towards the end of the year and coincided with increased production volumes due to the major outsourcing contract win that was announced in November. In addition, several other qualifications were completed resulting in significantly improved business conditions exiting 2004 which have continued into 2005.

All operational metrics continued to improve throughout the year with the result that the business unit was able to respond quickly and efficiently to the upturn in production towards the year end. Additionally, excellent technical progress continued with development of the world's first four band quantum well infrared detector (QWIP) camera, jointly with NASA's Jet Propulsion Lab, capable of imaging through smog and other atmospheric interferences. The Company is also qualified as an approved supplier to a number of the world's top RF component companies.

IQE (Europe) Limited

Major progress was made during the year in developing material for market sectors into which IQE had previously made little penetration. Many of these new markets were developed by successfully qualifying products and services for new customers in the Far East for a range of consumer electronics products such as CD/DVD players, DVD-RW systems, minidisks and ROMs. However, production volumes were lower than expected in the second half of 2004 due to a general weakening in demand across the board for consumer products. Demand has since improved again and, as a consequence, shipments at the end of 2004 and into 2005 have picked up substantially.

Demand for optical materials from the Company's traditional communications markets continued to be weak during the first three quarters of 2004 but the Company remains qualified and holds "preferred vendor status" for a wide range of optical communications products, and orders have begun to increase since the late summer. Interest continued to grow in advanced devices such as VCSELs that are used in short distance communications systems, sensing and imaging applications, lasers, detectors and other optical communications devices, and shortly after the year end the Company announced a technical breakthrough with Sweden's Chalmers University in terms of world leading high power performance output from IQE's VCSEL wafers.

IQE Silicon Compounds Limited

The profile of strained silicon continues to grow with the material taking on a dominant position on the ITRS (international semiconductor technology roadmap).

In the first half of the year, IQE Silicon launched its new 20% SiGe product targeting the sub 100nm technology node. The business unit's position was further enhanced towards the end of the year when, following successfully filing for patents, the Company announced its UltraSmooth Strained Silicon product that had exhibited for the first time a significant enhancement in speed for both nMOS and pMOS devices at sub 100nm technology nodes.

IQE's reputation as a leading player in strained silicon technology is undoubted and whilst the timescales for adopting the material for mainstream silicon devices depend upon other factors in the sector, IQE is poised to take a dominant role when the transition to the new platform occurs.

IQE Silicon has also succeeded in growing its revenues from standard silicon epitaxy processing as a result of increased sales and marketing activities. Furthermore, the business has increased its overall market share, partly as a result of a major competitor being acquired by a wafer fabrication business as an in-house epi source.

Wafer Technology Limited

Total wafer shipments during 2004 were 22.9% up on 2003 and only 2.5% below the previous highest annual total which was recorded in 2000. The Company also progressed a number of encouraging new qualifications which are expected to generate further demand for its GaAs products throughout 2005. In response to customers' increasingly stringent quality demands, the Company has developed significantly improved surface finish products across its product ranges, which are currently being sampled to leading industry players and are expected to contribute to revenue growth later this year.

The Board has accepted the resignation of Martin Lamb as Board Director of IQE plc and Managing Director of Wafer Technology Limited, and he will leave the Group on 29 April 2005. The management team at Wafer Technology has been strengthened by the appointment of Dr A Johnson, who brings considerable compound semiconductor industry experience to the Group.

5. TRADING PROSPECTS

The Group won a major outsourcing contract and experienced significant increases in demand for the full range of its products in the latter part of the year. As a result, the Group enters 2005 with its largest order book in the last two years and is in an excellent position to face the increased levels of order activity and capitalise on the improvements in productivity and operational efficiencies that have been achieved during the past year. The Board had anticipated that EBITDA breakeven would be achieved by the year end, but this is now expected to be accomplished within the next few months as sales levels increase. Coupled with substantially reduced debt payments, this should enable the Group to become cash generative in the near future.

Dr Drew Nelson
President and Chief Executive
IQE plc

RESULTS FOR 12 MONTHS TO 31 DECEMBER 2004

		6 months to 31 Dec 2004	6 months to 30 Jun 2004	6 months to 31 Dec 2003	12 months to 31 Dec 2004	12 months to 31 Dec 2003
CONSOLIDATED PROFIT AND LOSS ACCOUNT						
(All figures GBP000s)	<i>Note</i>	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Turnover from Continuing Operations		7,316	8,028	8,697	15,344	18,753
Cost of Sales		(9,201)	(9,956)	(10,412)	(19,157)	(22,031)
Gross Loss		(1,885)	(1,928)	(1,715)	(3,813)	(3,278)
Gross Loss %		(25.8)	(24.0)	(19.7)	(24.9)	(17.5)
Operating Expenses :						
Distribution Expenses		(794)	(605)	(755)	(1,399)	(1,555)
Administrative Expenses :						
Research/Development		(354)	(481)	(668)	(835)	(1,839)
Other Administrative Expenses (including exceptional items)	<i>1,2</i>	(1,700)	(2,604)	(3,683)	(4,304)	(6,744)
		(2,848)	(3,690)	(5,106)	(6,538)	(10,138)
Operating Loss before exceptional items		(5,125)	(5,397)	(6,299)	(10,522)	(12,588)
Other Operating Expenses :						
Exceptional items	<i>2</i>	392	(221)	(522)	171	(828)
Operating Loss from Continuing Operations		(4,733)	(5,618)	(6,821)	(10,351)	(13,416)
Operating Loss % from Continuing Operations		(64.7)	(70.0)	(78.4)	(67.5)	(71.5)
Interest Received/(Paid)		136	111	(51)	247	(223)
Loss on Ordinary Activities before Taxation		(4,597)	(5,507)	(6,872)	(10,104)	(13,639)
Loss %		(62.8)	(68.6)	(79.0)	(65.9)	(72.7)
Current Taxation		0	(0)	0	0	0
Deferred Taxation		0	(0)	0	0	0
Retained Loss for the Period		(4,597)	(5,507)	(6,872)	(10,104)	(13,639)
Basic Loss Pence/Share	<i>3</i>	(1.46)	(1.75)	(3.31)	(3.20)	(6.57)
Diluted Loss Pence/Share	<i>3</i>	(1.46)	(1.75)	(3.31)	(3.20)	(6.57)
Net Loss before Interest/ Taxes/Depreciation and Amortisation (EBITDA)		(3,512)	(4,599)	(5,766)	(8,112)	(11,300)

TOTAL RECOGNISED GAINS AND LOSSES AND MOVEMENT IN SHAREHOLDERS' FUNDS	6 months to 31 Dec 2004	6 months to 30 Jun 2004	6 months to 31 Dec 2003	12 months to 31 Dec 2004	12 months to 31 Dec 2003
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Unaudited	Audited
TOTAL RECOGNISED LOSSES					
Loss for the Period	(4,597)	(5,507)	(6,872)	(10,104)	(13,639)
Currency Translation Differences on Foreign Currency Net Investments	(123)	(43)	(158)	(166)	(356)
Total Recognised Losses relating to the Period	(4,720)	(5,550)	(7,030)	(10,270)	(13,995)
MOVEMENT IN SHAREHOLDERS' FUNDS					
Opening balance as previously reported	20,558	26,057	15,177	26,057	21,936
Prior year adjustment	0	(15)	0	(15)	0
Shares Issued net of Issue Costs	54	66	17,909	120	18,116
Foreign Exchange Translation Differences	(123)	(43)	(158)	(166)	(356)
Movement in Other Reserves	0	0	0	0	0
Loss Attributable to Members of the Group	(4,597)	(5,507)	(6,872)	(10,104)	(13,639)
Closing balance	15,892	20,558	26,056	15,892	26,057

The adoption of UITF 38 has required changes in the method of accounting for ESOP shares which are now dealt with as a deduction from shareholders' funds. As a result of this change in accounting policy, the comparatives have been restated as follows :

	Own Shares	Investment in Shareholders' Funds
31 December 2003 as previously reported	15	26,057
Reclassification of own shares to shareholders funds	(15)	(15)
31 December 2003 restated	0	26,042

CONSOLIDATED BALANCE SHEET	As At 31 Dec 2004	As At 30 Jun 2004	As At 31 Dec 2003
(All figures GBP000s)	Unaudited	Unaudited	Audited
Fixed Assets	9,204	10,363	11,349
Current Assets :			
Stocks	3,433	3,978	3,464
Debtors	2,604	2,356	2,439
Cash at Bank and in Hand	4	15,552	21,738
Total Current Assets	15,960	21,886	27,641
Creditors Falling Due within One Year	(6,471)	(8,124)	(8,606)
Net Current Assets	9,489	13,762	19,035
Total Assets less Current Liabilities	18,693	24,125	30,384
Creditors Falling Due after more than One Year :			
Deferred Income	(307)	(385)	(385)
Long Term Borrowings	(2,150)	(2,387)	(3,056)
Total Creditors Falling Due after more than One Year	(2,457)	(2,772)	(3,441)
Provision for Liabilities and Charges	(344)	(793)	(901)
Net Assets	15,892	20,560	26,042
Capital and Reserves :			
Called-up Share Capital	3,157	3,154	3,151
Share Premium	157,187	157,147	157,118
Merger Reserve	(605)	(605)	(605)
Profit and Loss Account	(143,251)	(138,654)	(133,147)
Exchange Rate Reserve	(808)	(683)	(640)
Investment in Own Shares	(13)	(15)	(15)
Other Reserves	225	216	180
Total Equity Shareholders' Funds	15,892	20,560	26,042

Approved by the Directors of IQE plc on 21 March 2005

CONSOLIDATED CASH FLOW STATEMENT	6 months to 31 Dec 2004	6 months to 30 Jun 2004	6 months to 31 Dec 2003	12 months to 31 Dec 2004	12 months to 31 Dec 2003
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Net Cash Outflow from Operating Activities	(4,454)	(4,642)	(5,106)	(9,096)	(10,100)
Returns on Investment and Servicing of Finance :					
Interest Received/(Paid)	136	111	(51)	247	(223)
Capital Expenditure :					
Payments to Acquire Fixed Assets less Leases	(214)	(134)	(149)	(348)	(234)
Proceeds from Sale of Fixed Assets	0	0	58	0	134
Net Cash Outflow before Management of Liquid Resources and Financing	(4,532)	(4,665)	(5,248)	(9,197)	(10,423)
Management of Liquid Resources	5,065	6,921	(11,800)	11,986	(5,550)
Financing :					
Issues of Ordinary Share Capital	53	67	17,909	120	18,116
Repayment of Loans	(157)	(202)	(100)	(359)	(978)
Repayment of Leases	(992)	(1,387)	(1,518)	(2,379)	(2,692)
Net Cash (Outflow)/Inflow from Financing	(1,096)	(1,522)	16,291	(2,618)	14,446
Increase/(Decrease) in Cash	(563)	734	(757)	171	(1,526)

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES	6 months to 31 Dec 2004	6 months to 30 Jun 2004	6 months to 31 Dec 2003	12 months to 31 Dec 2004	12 months to 31 Dec 2003
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Operating Loss	(4,733)	(5,618)	(6,821)	(10,351)	(13,416)
Depreciation of Fixed Assets	1,221	1,019	1,056	2,240	2,118
Loss on Sale of Fixed Assets	16	0	46	16	46
Movement in Stocks	545	(514)	831	31	1,524
Movement in Debtors	(248)	83	517	(165)	1,282
Movement in Creditors	(1,177)	388	(668)	(789)	(1,587)
Government Grants Released	(78)	0	(67)	(78)	(67)
Net Cash Outflow from Operating Activities	(4,454)	(4,642)	(5,106)	(9,096)	(10,100)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	6 months to 31 Dec 2004	6 months to 30 Jun 2004	6 months to 31 Dec 2003	12 months to 31 Dec 2004	12 months to 31 Dec 2003
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Increase/(Decrease) in Cash	(563)	736	(757)	171	(1,526)
Management of Liquid Resources	(5,065)	(6,921)	11,800	(11,986)	5,550
Loans Repaid	157	202	100	359	978
Leases Repaid	992	1,387	1,518	2,379	2,692
Change in Net Funds Resulting from Cash Flows	(4,479)	(4,596)	12,661	(9,077)	7,694
Opening Net Funds	11,206	15,776	3,045	15,776	7,959
Exchange Differences	35	27	70	64	124
Closing Net Funds	6,763	11,206	15,776	6,763	15,776

ANALYSIS OF NET FUNDS	As At 31 Dec 2004	As At 30 Jun 2004	As At 31 Dec 2003
(All figures GBP000s)	Unaudited	Unaudited	Audited
Cash at Bank and in Hand	1,109	1,673	938
Cash at Bank Accessible between 1 and 7 Days	8,814	13,879	20,800
Total Cash and Bank	9,923	15,552	21,738
Loans Due after more than One Year	(2,150)	(2,308)	(2,451)
Loans Due within One Year	(409)	(446)	(531)
HP/Finance Leases Due after more than One Year	0	(78)	(605)
HP/Finance Leases Due within One Year	(601)	(1,514)	(2,375)
Total	6,763	11,206	15,776

NOTES TO THE PRELIMINARY ANNOUNCEMENT

1 ACCOUNTING POLICIES

Accounting convention

The financial information is prepared under the historical cost convention and in accordance with applicable UK accounting standards, which have been applied on a consistent basis during the period under review.

Basis of consolidation

The financial information consolidates the financial statements of the Company and all of its subsidiaries. The acquisition of EPI Holdings Limited and IQE Inc (formerly Quantum Epitaxial Designs Inc) by IQE plc, a new holding Company established for that purpose, on 16 May 1999 has been accounted for under merger accounting whereby the financial information is disclosed as if the companies had always been part of the Group. The acquisition of IQE (Europe) Limited (formerly Epitaxial Products International Limited) and its subsidiary Epitaxial Products Inc by EPI Holdings Limited, a new Company established for that purpose, on 27 March 1996 and the acquisition of Wafer Technology International Limited and its subsidiary Wafer Technology Limited on 22 November 2000 have been accounted for under acquisition accounting, whereby these companies became part of the Group on the date of acquisition.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business net of value added tax and other sales related taxes. Turnover is recognised on despatch of goods.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use, as defined by Financial Reporting Standard Number 15. Depreciation has been calculated so as to write down the cost of assets to their residual values over the following estimated useful economic lives. No depreciation is provided on land or assets yet to be brought into use.

Freehold buildings	25 years
Short leasehold improvements	5/27 years
Plant and machinery	5/10 years
Fixtures and fittings	4/5 years

Stocks

Stocks are stated at the lower of cost and net realisable value.

Research and development

Research and development expenditure is fully written off when incurred.

Foreign currencies

Transactions in foreign currencies during the period are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. All exchange differences are taken to the profit and loss account. The balance sheets of IQE Inc are translated into sterling at the closing rates of exchange for the period, while the profit and loss accounts are translated into sterling at the average rates of exchange for the period. The resulting translation differences are taken directly to reserves.

Pension costs

The Group operates defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of those assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Government grants

Government grants receivable in connection with expenditure on tangible fixed assets are accounted for as deferred income, which is credited to the profit and loss account by instalments over the expected useful economic life of the related assets on a basis consistent with the depreciation policy. Revenue grants for the reimbursement of costs incurred are deducted from the costs to which they related, in the period in which the costs are incurred.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account. Operating lease rentals are charged to profit and loss account in equal amounts over the lease term. Provision is made at the balance sheet date for the present value of future rentals under operating leases on vacated properties.

	6 months to 31 Dec 2004	6 months to 30 Jun 2004	6 months to 31 Dec 2003	12 months to 31 Dec 2004	12 months to 31 Dec 2003
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
2 EXCEPTIONAL ITEMS					
Exceptional items comprise GBP000s :					
Restructuring costs	6	221	(6)	227	300
Onerous lease provisions	(398)	0	528	(398)	528
Exceptional items	<u>(392)</u>	<u>221</u>	<u>522</u>	<u>(171)</u>	<u>828</u>

Restructuring costs relate to the cost of staff redundancies as part of the Group's cost reduction programme. The exceptional credit of £398,000 (2003: charge £528,000) relates to the onerous lease provision in respect of a vacant property at Wafer Technology Limited.

	6 months to 31 Dec 2004	6 months to 30 Jun 2004	6 months to 31 Dec 2003	12 months to 31 Dec 2004	12 months to 31 Dec 2003
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
3 LOSS PER SHARE					
Retained Loss GBP000s	<u>(4,597)</u>	<u>(5,507)</u>	<u>(6,872)</u>	<u>(10,104)</u>	<u>(13,639)</u>
Weighted Average Number of Ordinary Shares	315,466,318	315,401,383	207,631,857	315,466,318	207,631,857
Diluted Share Options	4,538,582	2,474,166	1,665,548	4,538,582	1,665,548
Adjusted Weighted Average Number of Ordinary Shares	<u>320,004,900</u>	<u>317,875,549</u>	<u>209,297,405</u>	<u>320,004,900</u>	<u>209,297,405</u>
Basic Loss Pence/Share	(1.46)	(1.75)	(3.31)	(3.20)	(6.57)
Diluted Loss Pence/Share	(1.46)	(1.75)	(3.31)	(3.20)	(6.57)

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the period. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares.

FRS 14 requires the presentation of diluted LPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss-making company with outstanding share options and warrants, net loss per share would only be increased by the exercise of the out of the money options and warrants. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted LPS for out of the money share options and warrants.

4 CASH AT BANK AND IN HAND

Cash at bank at 31 December 2004 included £1,202,000 (2003: £nil) which had been placed on an interest bearing US dollar escrow account. The funds are intended to be used to purchase equipment from the counter party to the escrow account during 2005.

5 STATUTORY ACCOUNTS

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2004 and 31 December 2003. The financial information for the six months ended 31 December 2004 and 31 December 2003 is unaudited. The financial information for the year ended 31 December 2003 is derived from the Company's statutory accounts for the year ended 31 December 2003 which have been delivered to the Registrar of Companies. The auditors reported on those accounts. Their report was unqualified and did not contain a statement under s237 (2) or (3) Companies Act 1985.

The financial information set out in this announcement, which was approved by the Board of Directors and the Audit Committee on 21 March 2005, will be announced to all shareholders on the London Stock Exchange and published on the Company's website on 22 March 2005. Copies will be available to members of the public upon application to the Company Secretary at Pascal Close, Cypress Drive, St Mellons, Cardiff CF3 0EG.

The statutory accounts for the year ended 31 December 2004 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.