22 August 2007

IQE plc

Global wireless strategy drives IQE to operational profitability

IQE plc (AIM: IQE, "the Group"), the leading global supplier of advanced wafer products and services to the semiconductor industry, announces its Interim Results for the half year ended 30 June 2007.

HIGHLIGHTS

- Revenues up 62% at **£23.7m (**H1/2006: £14.6m), despite the impact of an adverse USD exchange rate. Revenue up 80% at constant exchange rates to £26.2m.
- Gross profit up 206% at **£3.9m (**H1/2006: £1.3m)
- EBITDA profit **£1.3m (**H1/2006: EBITDA loss £1.1m before exceptional gain)
- Operating profit **£0.1m** (H1/2006 operating loss £1.8m before exceptional gain)
- Cash generated from operations **£0.4m** (H1/2006 outflow £3.4m)
- Net cash outflow **£2.8m** (H1/2006 outflow £5.1m)
- Half year cash balance **£1.3m** (H1/2006 £1.2m)
- Acquisitions made during 2006 integrated smoothly and contributing strongly
- Also announced today; a multi-year preferred supplier agreement signed with an existing customer, one of the leading wireless chip manufacturer, expected to be worth at least $50m over first two years – see separate statement
- Relocating to larger state-of-the-art facility in Singapore to enable significant future capacity expansion in Asia Pacific
- Major R&D programme secured worth $4m

Dr Drew Nelson, IQE Chief Executive, commenting on the results said:

"Continued strong growth in the global wireless marketplace combined with a shift towards high-end, fully-featured handsets, high speed wi-fi and satellite communications systems, all of which use increasing amounts of our products, have driven revenues ahead of expectations during the first half of the year. This is despite the impact of a slow start in January and February and a weak dollar.

"Our position in the wireless market was substantially bolstered by the two major acquisitions made during 2006. This has positioned IQE as the clear leader in the supply of wafer products to the global wireless communications industry as confirmed by Strategy Analytics. We have also today announced the award of a very substantial, multi-year, preferred supply agreement with one of the world's largest wireless chip manufacturers, worth in total at least $50 million over the next two years.

"I am extremely pleased to announce the Group's move into operating profit as a result of the substantially increased revenues and strong operational gearing. This is a key milestone in our continuing progress and clearly demonstrates the strength of the business model. As more customers become cross qualified at our various manufacturing locations worldwide, we will be able to leverage our additional manufacturing capacity, which we expect will result in continued strong growth."

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NOTE TO EDITORS

IQE is the leading global supplier of advanced semiconductor wafers with products that cover a diverse range of applications, supported by an innovative outsourced foundry services portfolio that allows the Group to provide a 'one stop shop' for the wafer needs of the world's leading semiconductor manufacturers.

IQE uses advanced crystal growth technology (epitaxy) to manufacture and supply bespoke semiconductor wafers ('epi-wafers') to the major chip manufacturing companies, who then use these wafers to make the chips which form the key components of virtually all high technology systems. IQE is unique in being able to supply wafers using all of the leading crystal growth technology platforms.

IQE's products are found in many leading-edge consumer, communication, computing and industrial applications, including a complete range of wafer products for the wireless industry, such as mobile handsets and wireless infrastructure, wi-fi, wi-max, base stations, GPS, and satellite communications; optical communications, optical storage (CD, DVD), laser optical mouse, laser printers and photocopiers, thermal imagers, leading-edge medical products, barcode, high efficiency LEDs and a variety of advanced silicon-based systems.

The manufacturers of these chips are increasingly seeking to outsource wafer production to specialist foundries such as IQE in order to reduce overall wafer costs and accelerate time to market.

IQE also provides bespoke R&D services to deliver customised materials for specific applications and offers specialist technical staff to manufacture to specification either at its own facilities or on the customer's own sites. The Group is also able to leverage its global purchasing volumes to reduce the cost of raw materials. In this way IQE's outsourced services provide compelling benefits in terms of flexibility and predictability of cost, thereby significantly reducing operating risk.

IQE operates six manufacturing facilities located in Cardiff (two) and Milton Keynes in the UK; in Bethlehem, Pennsylvania and Somerset, New Jersey in the USA; and in Singapore. The Group also has 11 sales offices located in major economic centres worldwide.

INTERIM RESULTS 2007

1. OVERVIEW

The Group is now firmly established as the world's leading supplier of advanced wafer products and services to the semiconductor industry through its commitment to customer service, cost-effective products, unparalleled technical capabilities and its substantial investment in state-of-the-art manufacturing tools and facilities worldwide. IQE is the only supplier able to provide a full range of advanced epi-wafer products using all the key technology platforms, and offering global multi-site contingency planning, with operations in Europe, USA and Asia Pacific. This unique offering is viewed by existing and potential customers as a significant competitive advantage.

Revenues increased strongly during H1/2007 despite a flat start to trading in January and February and a weak dollar and were up 62% at £23.7m (H1/2006: £14.6m). At constant exchange rates, revenues would have grown by approximately 80% to £26.2m. This strong growth was largely driven by growth in the wireless market. There was a substantial improvement in trading performance and the achievement of EBITDA profit of £1.3m (H1/2006: EBITDA loss £0.8m) and an operating profit of £0.1m (H1/2006 operating loss £1.5m).

These results endorse the Group's strategy of becoming the leading supplier of wireless products enabled by the two acquisitions made during the second half of 2006. These acquisitions have been integrated successfully into the Group and performed well ahead of management expectations. By gaining exposure to the wireless power amplifier and the Asia Pacific markets, the product and customer reach of IQE has been substantially enhanced. Existing customers have reacted enthusiastically to these acquisitions and to IQE's unique offering in the wireless sector. This higher profile has also generated significant interest with potential new customers, who see the benefits of IQE's full product range, multi-site, multi-technology offering and overall global presence. The Group's strategy provides a clear competitive advantage which is allowing it to aggressively pursue higher market share.

2. RESULTS

Revenues were £23.7m (H1/2006: £14.6m) which represents a 62% increase compared with H1/2006 despite a significant worsening in exchange rate to USD 1.97/GBP (H1/2006: USD1.78/GBP). There was also a significant increase in gross profit to £3.9m (H1/2006: £1.3m), a 206% increase.

Selling, general and administrative expenses (SG&A costs) were up 23% at £3.8m (H1/2006: £3.1m before exceptional gain of £0.3m) equivalent to 16% of revenues (H1/2006: 19%) as a direct result of the fixed costs associated with the two acquired businesses. On a like for like basis, SG&A costs were flat.

The Group reported EBITDA of £1.3m (H1/2006: EBITDA loss £0.8m) and an operating profit of £0.1m (H1/2006: operating loss £1.5m). The loss for the period fell sharply to £0.5m (H1/2006: loss £1.6m) equivalent to a loss per share of 0.12 pence (H1/2006: loss per share 0.52 pence).

Cash management continued to be a priority with the focus firmly concentrated on controlling operating costs and carefully managing working capital. During the period, the Group achieved a cash inflow from operations of £0.4m (H1/2006: outflow £3.4m).

Capital expenditure was £4.0m (H1/2006: £1.0m) and consisted mainly of the purchase of property (£2.5m) and additional manufacturing equipment at IQE RF for increased production capacity for a key customer. This was funded by £3.7m of new loans.

The net receipt from loans and leases was £1.8m (H1/2006: net repayment £0.7m). Cash on hand at 30 June 2007 was £1.3m (H1/2006: £1.2m) and total borrowings increased to £11.6m (H1/2006: £4.6m), resulting in an increase in net debt to £10.4m (H1/2006: £3.4m). The Group has access to working capital facilities of £5.0m (H1/2006: £2.0m).

3. OPERATIONS

The Group operates in three key sectors: wireless, optoelectronics (opto) and electronics.

Over 70% of the Group's revenue currently comes from the wireless sector. IQE is now the largest supplier of wafers in this rapidly growing market, supplying products and services which are used in a wide variety of devices, including mobile handsets, cellular base-stations, GPS, set top boxes and other satellite communication systems, as well as the rapidly growing wi-fi, wi-max, wi-bro, wireless LAN, laptop wi-fi and other wireless-enabled technologies that are becoming ubiquitous in business, industrial and consumer applications.

The optoelectronics (opto) market also continues to be a key focus for the Group accounting for approximately 20% of revenues. In this market the Group supplies a wide range of high-end opto electronic wafer products for leading-edge consumer, communication and computing applications, which include wafers for fibre-optic communication networks, lasers for printing and other office applications, optical storage (CD/DVD) systems, laser mouse products, LEDs and other laser based components, and devices covering a wide variety of automotive, aerospace, industrial and medical applications. In addition, the Group is aggressively pursuing the development of compound semiconductor based Terrestrial Solar Cell technology for clean and efficient energy generation, and ultra high efficiency LED technology for energy saving general lighting applications

IQE also operates at the cutting edge of advanced silicon-based epi technology for high end Integrated Circuit (IC) and high density memory applications in the electronics sector, and is actively developing ultra high speed, ultra high density memory technologies through funded R&D programmes. This business sector is growing rapidly as these new technologies are increasingly adopted by large multinational chip manufacturers.

During the first half, IQE negotiated a very attractive opportunity to relocate the Singapore operation into a much larger, state-of-the-art clean room facility at minimal capital cost. This will provide substantially increased expansion capability to support the rapidly growing business in the Asia Pacific region, particularly in China where IQE's customers are planning major expansions. The move will be achieved with minimal impact to ongoing operations and has attracted significant Singaporean Government assistance, including the offer of tax free status over the next ten years.

The Group has recently been awarded substantial R&D contracts worth in the order of USD4m. One, as part of a UK consortium, is to develop ultra high efficiency Light Emitting Diodes (LEDs) for solid state lighting, expected to be the key technology to replace the incandescent bulb as it is progressively banned by Governments around the globe in response to global warming. Other R&D contracts include the development of Strontium Titanium Oxide on Silicon epi-wafers (STO/Si) using IQE's state-of-the-art molecular beam epitaxy (MBE) systems and the development of advanced material structures for increased processing speed for future ICs. The Group is also progressing its Terrestrial Solar Cell activities through customer funded programmes, which have already demonstrated world class efficiency performance levels.

4. MAJOR CONTRACT WIN

The Group has also today announced that it has been awarded a very substantial, multi-year, preferred supplier agreement with ANADIGICS Inc, one of the world's leading wireless chip manufacturers.

IQE's wafer products for this customer are used to manufacture chips for 3G handsets and base stations, latest generation (802.11n) wi-fi systems for infrastructure and wi-fi enabled laptop computers, broadband fibre optic systems and satellite set top box applications. It is estimated that the value of this business will be at least $50m over the first two years.

5. TRADING PROSPECTS

The acquisitions made during 2006 and the Group's strong focus on the rapidly growing wireless communications marketplace have ensured that IQE is now firmly delivering on its growth strategy. The increase in wireless volumes (mobile phones, wi-fi, wi-max, GPS, direct broadcast TV and Bluetooth) and, significantly, the continued trend to higher speed, feature rich devices is fuelling strong demand for IQE products. Recent upgrades to the overall handset market for 2007 and 2008 are mainly for high-end replacement phones, and this is seen as a strong indicator of continually growing demand for the Group's GaAs-based power amplifier and switch products.

In addition to the Group's strong position in the wireless market, IQE is firmly established as a leading supplier of high end optoelectronic products, particularly laser based wafer technologies, with widespread application in many areas, including optical storage, office based laser printers and copiers, optical fibre communications, computer laser mouse applications, and several other industrial, automotive and medical systems.

The Group's future product strategy and technology roadmap include compound semiconductor wafers for advanced wireless products, terrestrial solar cell applications where excellent results have already been achieved, laser based projection and high definition optical storage systems, and ultra high speed, high density memory device applications.

The Board remains confident that the robust global strategy, the Group's high operational gearing and the continued strength of the markets in which IQE operates position it well to deliver continued strong growth.

INTERIM RESULTS FOR 6 MONTHS TO 30 JUNE 2007

CONSOLIDATED INCOME STATEMENT		*6 months to 30 Jun 2007*	*6 months to 30 Jun 2006*	*12 months to 31 Dec 2006*
(All figures GBP000s)	*Note*	*Unaudited*	*Unaudited*	*Unaudited*
Revenue		*23,680*	*14,591*	*32,421*
Cost of Sales		***(19,806)***	***(13,325)***	***(30,072)***
Gross Profit		*3,873*	*1,267*	*2,349*
Gross Profit %		***16.4***	***8.7***	***7.2***
Selling, General and Administrative Expenses (Including Exceptional Gain)	***3***	***(3,809)***	***(2,787)***	***(6,050)***
Operating Profit/(Loss)		*64*	*(1,520)*	*(3,701)*
Operating Profit/(Loss) %		***0.3***	***(10.4)***	***(11.4)***
Operating Profit/(Loss) before Exceptional Gain		***64***	***(1,775)***	***(3,956)***
Exceptional Gain	***3***	***0***	***255***	***255***
Operating Profit/(Loss)		***64***	***(1,520)***	***(3,701)***
Operating Profit/(Loss) % before Exceptional Gain		***0.3***	***(12.2)***	***(12.2)***
Finance Income		***5***	***49***	***104***
Finance Costs		***(572)***	***(170)***	***(393)***
Loss for the Period		*(503)*	*(1,641)*	*(3,990)*
Basic Loss Pence per Ordinary 1p Share	***4***	***(0.12)***	***(0.52)***	***(1.14)***
Diluted Loss Pence per Ordinary 1p Share	***4***	***(0.12)***	***(0.52)***	***(1.14)***
Loss for the Period		***(503)***	***(1,641)***	***(3,990)***
Net Interest Payable		***567***	***121***	***289***
Depreciation of Fixed Assets		***1,111***	***682***	***1,617***
Amortisation of Intangible Assets		***157***	***46***	***136***
Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA)		*1,332*	*(792)*	*(1,948)*

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE *(All figures GBP000s)*	*6 months to 30 Jun 2007 Unaudited*	*6 months to 30 Jun 2006 Unaudited*	*12 months to 31 Dec 2006 Unaudited*
Loss for the Period	***(503)***	***(1,641)***	***(3,990)***
Currency translation differences on foreign currency net investments	***(233)***	***(313)***	***(916)***
Total Recognised Expense for the Period	*(736)*	*(1,955)*	*(4,906)*

CONSOLIDATED BALANCE SHEET *(All figures GBP000s)*	*As At 30 Jun 2007 Unaudited*	*As At 30 Jun 2006 Unaudited*	*As At 31 Dec 2006 Unaudited*
Non-Current Assets :			
Intangible Assets	***11,644***	***123***	***11,095***
Tangible Assets	***14,510***	***8,780***	***11,803***
Total Non-Current Assets	*26,153*	*8,903*	*22,898*
Current Assets :			
Inventories	***8,094***	***5,592***	***8,580***
Trade and Other Receivables	***8,540***	***4,973***	***6,480***
Cash and Cash Equivalents	***1,263***	***1,193***	***4,071***
Total Current Assets	*17,897*	*11,758*	*19,131*
Total Assets	*44,050*	*20,662*	*42,029*
Current Liabilities :			
Borrowings	***(3,583)***	***(1,468)***	***(2,755)***
Trade and Other Payables	***(8,851)***	***(5,268)***	***(8,040)***
Total Current Liabilities	*(12,434)*	*(6,736)*	*(10,795)*
Non-Current Liabilities :			
Borrowings	***(8,046)***	***(3,151)***	***(7,234)***
Deferred Income	***(141)***	***(179)***	***(160)***
Total Non-Current Liabilities	*(8,187)*	*(3,330)*	*(7,394)*
Total Liabilities	*(20,621)*	*(10,066)*	*(18,190)*
Net Assets	*23,430*	*10,595*	*23,840*
Shareholders' Equity :			
Ordinary Shares	***4,308***	***3,169***	***4,299***
Share Premium	***172,155***	***157,314***	***172,030***
Other Reserves	***(951)***	***(658)***	***(910)***
Profit and Loss Account	***(152,082)***	***(149,230)***	***(151,579)***
Total Shareholders' Equity	*23,430*	*10,595*	*23,840*

CONSOLIDATED CASH FLOW STATEMENT *(All figures GBP000s)*	*6 months to 30 Jun 2007* *Unaudited*	*6 months to 30 Jun 2006* *Unaudited*	*12 months to 31 Dec 2006* *Unaudited*
Cash Flows from Operating Activities :			
Cash Generated from Operations	***393***	***(3,436)***	***(4,418)***
Interest Received	***5***	***49***	***104***
Interest Paid	***(427)***	***(170)***	***(368)***
Net Cash Used in Operating Activities	*(29)*	*(3,557)*	*(4,683)*
Cash Flows from Investing Activities :			
Purchase of Subsidiary Undertakings	***0***	***0***	***(11,227)***
Cash Acquired in Subsidiary Undertakings	***0***	***0***	***1,023***
Development Expenditure	***(730)***	***0***	***(222)***
Purchase of Tangible Fixed Assets	***(3,974)***	***(977)***	***(1,430)***
Proceeds from Sale of Tangible Fixed Assets	***0***	***160***	***251***
Net Cash Used in Investing Activities	*(4,704)*	*(817)*	*(11,605)*
Cash Flows from Financing Activities :			
Issues of Ordinary Share Capital	***127***	***51***	***15,920***
Loans and Leases Received/(Repaid)	***1,798***	***(730)***	***(1,806)***
Net Cash Generated from Financing Activities	*1,925*	*(679)*	*14,114*
Net Decrease in Cash and Cash Equivalents	*(2,808)*	*(5,053)*	*(2,174)*
Cash and Cash Equivalents at the Beginning of the Period	*4,071*	*6,245*	*6,245*
Cash and Cash Equivalents at the End of the Period	*1,263*	*1,193*	*4,071*

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

These unaudited interim financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") and interpretations expected to be in issue at 31 December 2007. The principal accounting policies of the Group are stated below. The interim financial statements were approved by the Board of Directors and the Audit Committee on 21 August 2007. The interim financial statements do not constitute statutory accounts within the meaning of the Companies Act 1985 and have not been audited. Comparative figures in the financial statements for the year ended 31 December 2006 have been taken from the Group's audited UK GAAP statutory accounts on which the company's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion and amended by adjustments required by IFRS. All periods presented are unaudited.

In anticipation of changes required under IFRS, the Group has published an IFRS transition statement on 14 August 2007. This statement sets out the effect of adopting IFRS for the Group, the basis of preparation, the accounting policies, and details of significant adjustments in respect of the opening balance sheet at 1 January 2006, the results for the year ended 31 December 2006 and the balance sheet at 31 December 2006.

The interim financial statements will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 22 August 2007. Copies will be available to members of the public upon application to the Company Secretary at Pascal Close, Cypress Drive, St Mellons, Cardiff CF3 0LW.

2	*SEGMENTAL INFORMATION (All figures GBP000s)*	*6 months to 30 Jun 2007 Unaudited*	*6 months to 30 Jun 2006 Unaudited*	*12 months to 31 Dec 2006 Unaudited*
	Revenue by Business Segment :			
	Wireless	**17,326**	**8,713**	**20,271**
	Optoelectronics	**5,097**	**4,965**	**10,066**
	Electronics	**1,256**	**913**	**2,084**
	Total Revenue	**23,680**	**14,591**	**32,421**
	Operating Profit/(Loss) by Business Segment :			
	Wireless	**1,261**	**(78)**	**(166)**
	Optoelectronics	**(938)**	**(860)**	**(2,361)**
	Electronics	**(258)**	**(583)**	**(1,174)**
	Total Operating Profit/(Loss)	**64**	**(1,520)**	**(3,701)**

3	*EXCEPTIONAL GAIN (All figures GBP000s)*	*6 months to 30 Jun 2007 Unaudited*	*6 months to 30 Jun 2006 Unaudited*	*12 months to 31 Dec 2006 Unaudited*
	Onerous lease provision credited in administrative expenses	**0**	**(255)**	**(255)**
	Exceptional gain	**0**	**(255)**	**(255)**

The exceptional gain in 2006 of £255,000 relates to the onerous lease provision in respect of a vacant property at IQE (Europe) Limited which has been released to the profit and loss account as the Group is no longer the tenant.

4	LOSS PER SHARE	*6 months to 30 Jun 2007 Unaudited*	*6 months to 30 Jun 2006 Unaudited*	*12 months to 31 Dec 2006 Unaudited*
	Loss for the Period GBP 000s	**(503)**	**(1,641)**	**(3,990)**
	Weighted Average Number of Ordinary Shares	**430,362,629**	**315,976,014**	**350,729,318**
	Diluted Share Options	**6,931,004**	**6,919,658**	**8,593,469**
	Adjusted Weighted Average Number of Ordinary Shares	**437,293,633**	**322,895,672**	**359,322,787**
	Basic Loss Pence per Share	**(0.12)**	**(0.52)**	**(1.14)**
	Diluted Loss Pence per Share	**(0.12)**	**(0.52)**	**(1.14)**

Basic loss per share is calculated by dividing the loss 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.

IAS 33 requires the presentation of diluted Loss Pence per Share 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, net loss per share would only be increased by the exercise of the out of the money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted Loss Pence per Share for out of the money share options.

5	STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (All figures GBP000s)	*6 months to 30 Jun 2007 Unaudited*	*6 months to 30 Jun 2006 Unaudited*	*12 months to 31 Dec 2006 Unaudited*
	At the Beginning of the Period	**23,839**	**12,326**	**12,326**
	Loss for the Period Attributable to Equity Shareholders	**(503)**	**(1,641)**	**(3,990)**
	Share Option Costs Credited to Reserves	**198**	**170**	**500**
	Shares Issued net of Issue Costs	**127**	**51**	**15,920**
	Deferred Consideration on Acquisition of Subsidiary	**0**	**0**	**0**
	Net Exchange Differences Offset in Reserves	**(233)**	**(313)**	**(916)**
	At the End of the Period	**23,429**	**10,593**	**23,839**

		6 months to 30 Jun 2007 Unaudited	6 months to 30 Jun 2006 Unaudited	12 months to 31 Dec 2006 Unaudited
6	*CASH GENERATED FROM OPERATIONS* *(All figures GBP000s)*			
	Operating Profit/(Loss)	**64**	**(1,520)**	**(3,701)**
	Depreciation of Tangible Assets	**1,111**	**682**	**1,617**
	Amortisation of Intangible Assets	**157**	**46**	**136**
	Loss/(Gain) on Sale of Tangible Assets	**0**	**(62)**	**(38)**
	Government Grants Released	**(19)**	**(19)**	**(39)**
	Non-Cash Share Option Costs	**198**	**170**	**500**
	Operating Profit/(Loss) before Changes in Working Capital	**1,511**	**(703)**	**(1,525)**
	Decrease/(Increase) in Inventories	**487**	**(1,280)**	**(1,536)**
	(Increase)/Decrease in Trade and Other Receivables	**(2,060)**	**(1,569)**	**(1,930)**
	Increase/(Decrease) in Trade and Other Payables	**455**	**116**	**572**
	Cash Inflow/(Outflow) Generated from Operations	**393**	**(3,436)**	**(4,418)**

		As At 30 Jun 2007 Unaudited	As At 30 Jun 2006 Unaudited	As At 31 Dec 2006 Unaudited
7	*ANALYSIS OF NET DEBT* *(All figures GBP000s)*			
	Cash at Bank and in Hand	**1,252**	**1,187**	**3,085**
	Highly Liquid Investments	**11**	**6**	**986**
	Total Cash and Cash Equivalents	**1,263**	**1,193**	**4,071**
	Loans Due after One Year	**(8,040)**	**(3,151)**	**(7,226)**
	Loans Due within One Year	**(3,582)**	**(1,468)**	**(2,731)**
	Finance Leases Due after One Year	**(6)**	**0**	**(8)**
	Finance Leases Due within One Year	**(1)**	**0**	**(24)**
	Total Borrowings	**(11,629)**	**(4,619)**	**(9,989)**
	Net Debt	**(10,366)**	**(3,426)**	**(5,918)**

8	*RECONCILIATION OF OPERATING LOSS UNDER UK GAAP TO IFRS (All figures GBP000s)*	*6 months to 30 Jun 2006 Unaudited*	*12 months to 31 Dec 2006 Unaudited*
	Operating Loss per UK GAAP	**(1,450)**	**(3,976)**
	Capitalisation of development costs	**(5)**	**222**
	Amortisation of intangible assets	**(46)**	**(136)**
	Amortisation of goodwill	**0**	**166**
	Provision for holiday pay	**(19)**	**24**
	Operating Loss per IFRS	**(1,520)**	**(3,701)**

9	*RECONCILIATION OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2005 UNDER UK GAAP TO IFRS (All figures GBP000s)*	*UK GAAP Reformatted Unaudited*	*IFRS 3 Business Combinations Unaudited*	*IAS 38 Intangible Assets Unaudited*	*IAS 19 Employee Benefits Unaudited*	*IFRS Unaudited*
	Non-Current Assets :					
	Intangible Assets	**0**	**0**	**183**	**0**	**183**
	Tangible Assets	**8,816**	**0**	**(62)**	**0**	**8,754**
	Total Non-Current Assets	**8,816**	**0**	**121**	**0**	**8,937**
	Current Assets :					
	Inventories	**4,312**	**0**	**0**	**0**	**4,312**
	Trade and Other Receivables	**3,404**	**0**	**0**	**0**	**3,404**
	Cash and Cash Equivalents	**6,245**	**0**	**0**	**0**	**6,245**
	Total Current Assets	**13,961**	**0**	**0**	**0**	**13,961**
	Current Liabilities :					
	Borrowings	**(1,739)**	**0**	**0**	**0**	**(1,739)**
	Trade and Other Payables	**(4,616)**	**0**	**0**	**(117)**	**(4,733)**
	Total Current Liabilities	**(6,355)**	**0**	**0**	**(117)**	**(6,472)**
	Non-Current Liabilities :					
	Borrowings	**(3,646)**	**0**	**0**	**0**	**(3,646)**
	Deferred Income	**(199)**	**0**	**0**	**0**	**(199)**
	Provision for Liabilities and Charges	**(255)**	**0**	**0**	**0**	**(255)**
	Total Non-Current Liabilities	**(4,100)**	**0**	**0**	**0**	**(4,100)**
	Net Assets	**12,323**	**0**	**121**	**(117)**	**12,327**
	Shareholders' Equity :					
	Ordinary Shares	**3,163**	**0**	**0**	**0**	**3,163**
	Share Premium	**157,264**	**0**	**0**	**0**	**157,264**
	Other Reserves	**(509)**	**0**	**0**	**0**	**(509)**
	Profit and Loss Account	**(147,594)**	**0**	**121**	**(117)**	**(147,590)**
	Total Shareholders' Equity	**12,323**	**0**	**121**	**(117)**	**12,327**

10 RECONCILIATION OF SHAREHOLDERS' EQUITY AT 30 JUNE 2006	UK GAAP	IFRS 3 Business Combinations	IAS 38 Intangible	IAS 19 Employee	
UNDER UK GAAP TO IFRS	*Reformatted*		*Assets*	*Benefits*	*IFRS*
(All figures GBP000s)	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
Non-Current Assets :					
Intangible Assets	**0**	**0**	**123**	**0**	**123**
Tangible Assets	**8,833**	**0**	**(53)**	**0**	**8,780**
Total Non-Current Assets	**8,833**	**0**	**70**	**0**	**8,903**
Current Assets :					
Inventories	**5,592**	**0**	**0**	**0**	**5,592**
Trade and Other Receivables	**4,973**	**0**	**0**	**0**	**4,973**
Cash and Cash Equivalents	**1,193**	**0**	**0**	**0**	**1,193**
Total Current Assets	**11,758**	**0**	**0**	**0**	**11,758**
Current Liabilities :					
Borrowings	**(1,468)**	**0**	**0**	**0**	**(1,468)**
Trade and Other Payables	**(5,132)**	**0**	**0**	**(136)**	**(5,268)**
Total Current Liabilities	**(6,600)**	**0**	**0**	**(136)**	**(6,736)**
Non-Current Liabilities :					
Borrowings	**(3,151)**	**0**	**0**	**0**	**(3,151)**
Deferred Income	**(179)**	**0**	**0**	**0**	**(179)**
Total Non-Current Liabilities	**(3,330)**	**0**	**0**	**0**	**(3,330)**
Net Assets	**10,661**	**0**	**70**	**(136)**	**10,595**
Shareholders' Equity :					
Ordinary Shares	**3,169**	**0**	**0**	**0**	**3,169**
Share Premium	**157,314**	**0**	**0**	**0**	**157,314**
Other Reserves	**(658)**	**0**	**0**	**0**	**(658)**
Profit and Loss Account	**(149,164)**	**0**	**70**	**(136)**	**(149,230)**
Total Shareholders' Equity	**10,661**	**0**	**70**	**(136)**	**10,595**

11	RECONCILIATION OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2006 UNDER UK GAAP TO IFRS (All figures GBP000s)	UK GAAP Reformatted Unaudited	IFRS 3 Business Combinations Unaudited	IAS 38 Intangible Assets Unaudited	IAS 19 Employee Benefits Unaudited	IFRS Unaudited
	Non-Current Assets :					
	Goodwill	**10,903**	**(2,303)**	**0**	**0**	**8,600**
	Intangible Assets	**0**	**2,172**	**323**	**0**	**2,495**
	Tangible Assets	**11,861**	**0**	**(58)**	**0**	**11,803**
	Total Non-Current Assets	**22,765**	**(131)**	**265**	**0**	**22,898**
	Current Assets :					
	Inventories	**8,580**	**0**	**0**	**0**	**8,580**
	Trade and Other Receivables	**6,480**	**0**	**0**	**0**	**6,480**
	Cash and Cash Equivalents	**4,071**	**0**	**0**	**0**	**4,071**
	Total Current Assets	**19,131**	**0**	**0**	**0**	**19,131**
	Current Liabilities :					
	Borrowings	**(2,755)**	**0**	**0**	**0**	**(2,755)**
	Trade and Other Payables	**(8,161)**	**214**	**0**	**(93)**	**(8,040)**
	Total Current Liabilities	**(10,916)**	**214**	**0**	**(93)**	**(10,795)**
	Non-Current Liabilities :					
	Borrowings	**(7,234)**	**0**	**0**	**0**	**(7,234)**
	Deferred Income	**(160)**	**0**	**0**	**0**	**(160)**
	Total Non-Current Liabilities	**(7,394)**	**0**	**0**	**0**	**(7,394)**
	Net Assets	**23,585**	**83**	**265**	**(93)**	**23,840**
	Shareholders' Equity :					
	Ordinary Shares	**4,299**	**0**	**0**	**0**	**4,299**
	Share Premium	**172,030**	**0**	**0**	**0**	**172,030**
	Other Reserves	**(910)**	**0**	**0**	**0**	**(910)**
	Profit and Loss Account	**(151,834)**	**83**	**265**	**(93)**	**(151,579)**
	Total Shareholders' Equity	**23,585**	**83**	**265**	**(93)**	**23,840**

12 CONTINGENT LIABILITY

The Group received a claim in 2005 for approximately £1 million in respect of national insurance contributions in relation to share options that were issued in 1999. Having sought legal opinion, the Board remains robust in its opinion that the Group has meritorious defences to this claim. Accordingly, no provision has been made in the Interim results.

INDEPENDENT REVIEW REPORT TO IQE Plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises a summarised profit and loss account, a statement of total gains and losses, summarised balance sheet information as at 30 June 2007, a summarised cash flow statement, comparative figures and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The rules of the Alternative Investment Market require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in Note 1.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cardiff
22 August 2007