

17 March 2008

# IQE plc

## 54% revenue jump drives return to operating profitability, outlook strong

IQE plc (AIM: IQE, "the Group"), the leading global supplier of advanced wafer products and wafer services to the semiconductor industry, has announced its Preliminary Results for the year ended 31 December 2007.

### FINANCIAL HIGHLIGHTS

- Revenues jump **54%** to **£50.1m** (2006: £32.4m), up 69% at constant exchange rates
- Continued margin improvement with gross profit up **250%** to **£8.2m** (2006: £2.3m)
- EBITDA profit up **£5.6m** at **£3.9m** (2006: loss £1.7m) before exceptional items
- Operating profit up **£4.6m** at **£0.6m** (2006: loss £4.0m) before exceptional items
- Cash generated from operations **£1.9m** (2006: outflow £4.4m)

### BUSINESS HIGHLIGHTS

- Return to operating profitability demonstrating powerful, highly leveraged business model
- Year of strong delivery on strategy
- Continued focus on high growth global markets driven by high speed wireless communications, mobile devices, solar cells and solid state lighting
- Acquisitions made during 2006 successfully integrated into Group and contributed strongly
- Firmly established as industry leader in advanced wafer outsourcing

### TRADING OUTLOOK

- Q1 2008 continuing strongly, with revenues currently running between 30 to 40% ahead of 2007,
- Market conditions continuing to show robust demand for Gallium Arsenide (GaAs) based products driven principally by 3G and other high speed wireless applications
- Strong forward demand for GaAs wafers is a consequence of the rapidly increasing number of GaAs components in each high speed mobile communication device, resulting in demand growth for GaAs components which is significantly outstripping growth in the overall handset and wireless communication markets.

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

*"2007 saw the third consecutive year of substantial revenue growth averaging 50% per annum and a return to operating profitability as a result of delivering on our strategy, and our clear focus on high growth markets"*

*"Our major markets have continued to be driven by the increasing demand for GaAs based components for high speed, feature rich mobile devices that demand the high levels of performance and functionality that our products deliver. IQE is now widely recognised as the global market leader in advanced semiconductor wafer outsourcing."*

*"Our strategy of focusing on rapidly growing technologies has given us a solid base from which we can deliver continued and sustainable growth.*

*"Now that we are generating profits and cash from operations we have also put in place significantly enhanced banking facilities to support our continued growth. In the current economic climate, this new facility signals a resounding vote of confidence in IQE's strategy, its business model and management team.*

*"We have maintained our strong growth throughout the first quarter of 2008, and continue to see robust forward demand from our customers, particularly in the high speed wireless communications sector. We are confident of another year of strong growth."*

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**NOTE TO EDITORS**

IQE plc is the leading global supplier of advanced semiconductor wafers with products that cover a diverse range of applications. It is able to provide a 'one stop shop' for the wafer needs of the world's leading compound semiconductor manufacturers, who in turn use these wafers to make the chips which form the key components of virtually every high technology system. IQE has particular focus on the growing global wireless sector for applications including; mobile handsets, wireless infrastructure, Wi-Fi, WiMAX, base stations, GPS and satellite communications; as well as for the optical communication sector including; optical storage (CD, DVD), laser optical mice, laser printers & photocopiers, thermal imagers, leading-edge medical products, bar-coding, high efficiency LEDs and advanced solar cells.

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 is unique in being able to supply wafers using all of the leading crystal growth technology platforms including Metal Organic Vapour Phase Epitaxy (MOVPE) and Molecular Beam Epitaxy (MBE) and the Group is able to leverage its global purchasing volumes to reduce the cost of raw materials.

IQE also provides bespoke R&D services to deliver customized 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. This is backed by a strategy of duplicating each key product processes over multiple sites to assure customers of security of supply as well as provide compelling customer benefits in terms of flexibility and predictability of cost, thereby significantly reducing operating risk.

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

## **PRELIMINARY RESULTS 2007**

### **1. OVERVIEW**

2007 represented a major milestone for the Group as our strategy to focus on high speed mobile products delivered solid results and clearly demonstrated the strength of our highly geared business model.

The Group returned to operating profitability through a strong focus on high growth markets. 2007 represents the third year of strong revenue growth averaging 50% per annum. The acquisitions made during 2006 were quickly and efficiently integrated within the Group, and have contributed strongly to IQE's strategic positioning and financial performance.

Following these acquisitions the Group now has a global footprint and is widely recognised as the leading player within the compound semiconductor wafer industry. Furthermore, IQE is unique in being able to offer a comprehensive product portfolio using both MOVPE and MBE production platforms across multi-site manufacturing facilities. Our global presence is further enhanced through our network of sales locations which provide access to all the world's major economic regions.

IQE has also been successful in reducing its business risk by expanding the customer base and widening the product portfolio. This diversification means that IQE's sales are now much more closely correlated with the end markets and in particular the market for high speed wireless communication.

### **2. RESULTS**

Revenue of £50.1m was significantly higher than 2006 (£32.4m), representing a year on year increase of 54% (69% underlying increase before the impact of foreign exchange translation).

From this 54% increase in revenues the business delivered a 250% increase in gross profit from £2.3m to £8.2m. This substantial improvement clearly demonstrates the powerful leverage of the business model and the benefit of improved efficiencies.

Selling, General and Administrative expenses ("SG&A") were £8.1m (2006: £6.1m), which represents 16.1% of sales (2006: 18.7%). Before exceptional items SG&A increased by £1.4m due to the inclusion of the two businesses acquired during 2006. In addition, during 2007 we incurred £0.4m of one-off exceptional costs relating to the relocation of our Singapore operation to a new state-of-the-art facility which provides considerable room for expansion, This relocation is on track and will be completed during 2008. In 2006 we recognised an exceptional credit of £0.2m relating to the release of an onerous lease provision.

EBITDA (before exceptional items) for the year was £3.9m (2006: EBITDA loss of £1.7m), and operating profit (before exceptional items) was £0.6m (2006: operating loss of £4.0m). This strong financial performance and return to operating profitability reflect that 2007 has been a milestone year for the Group and marks a strong delivery against a robust strategy.

Including interest and exceptional costs, the retained loss was £0.9m (2006: loss £4.0m), representing a loss per share of 0.21 pence (2006: 1.14 pence loss per share)

Working capital was carefully managed and increased by only £0.8m on a £17.7m increase in revenues. This limited absorption of cash into working capital has assisted with the strong conversion of our operating profit into a positive cash inflow from operating activities of £1.2m (2006: outflow of £4.7m)

Capital expenditure increased to £7.8m (2006: £1.4m) as it included £2.7m relating to the purchase of property and an investment of £3.6m in additional capacity in specific areas to address growing demand for specific customers. The major items of capital expenditure were funded by £5.5m of new loans. The Group also invested £1.4m (2006: £0.2m) in development expenditure which has been capitalised.

Net debt at December was £14.2m (2006: £5.9m). Shortly after the year end, the Group appointed Lloyds TSB Corporate Markets as its principal banker and agreed new, significantly increased banking facilities of up to £15.5m for the purpose of financing growth and working capital.

### **3. STRATEGY**

IQE's strategy is to focus on fast growth, high volume technologies, and in particular, high speed wireless communications and consumer opto electronics. In addition, the Group is also actively engaged in developing advanced solar cell technology, ultra efficient LEDs and ultra high speed microprocessor and memory chip materials technology for these fast growth, high volume emerging markets.

In order to provide customers with the most competitive outsource wafer service globally, IQE has developed a unique set of advantages, including :

- offering a complete range of products covering all major applications;
- offering global multi-site production capabilities in the primary manufacturing platforms to allow efficient capacity planning and for disaster scenario contingency;
- maintaining a broad contact base with access to all the key global markets;
- delivering benefits from economies of scale including purchasing power and research and development efficiencies;
- promoting the sharing of best practices and innovation to deliver improved operating and cost efficiencies; and
- providing surge capacity to meet the expected growth in demand in the mobile device sector and other high volume activities

This strategy has delivered tangible results in the current generation of wireless products that have dominated IQE's output during 2007 and will continue to deliver on current and next generation products. In addition, IQE is also able to leverage its large manufacturing capacity in order to deliver tangible benefits to customers, staff and shareholders alike.

### **4. PRODUCTS AND MARKETS**

Our product roadmap and strategy continues to be driven by four key market dynamics, all of which have fast growth, high volume prospects:

- The increasing adoption of high speed mobile communications, including 3G, WiFi , WiMAX, WiBro, GPS and other wireless technologies . As mobile technologies continue to advance at an enormous pace with new features constantly emerging, the role of advanced compound semiconductor materials has become critical in enabling high speed data processing whilst maintaining low levels of power consumption. IQE's products are absolutely critical in the drive to 3G and beyond, along with the need for backward compatibility and the speed and power to accommodate features such as high resolution imaging, video, high speed wireless data access, VoIP and satellite navigation. Each high speed communication device now contains multiple numbers of GaAs components compared with earlier generations, creating a powerful demand driver for GaAs components and wafers which far outstrips the growth of the overall communications market.

- The ubiquity of applications for high volume semiconductor lasers, including HD DVD, laser mouse, laser projection, and office and industrial applications. In particular, laser projection is viewed as one of the most exciting applications of this technology, eventually being incorporated into mobile handsets
- The accelerating drive for clean, efficient and sustainable energy sources (solar cells), and highly efficient light sources (LEDs) in order to reduce the impact on global warming, reliance on fossil fuels and provide a much cleaner environment. Compound semiconductors are playing a critical role, and IQE are involved in leading edge development for these applications, having achieved world leading results through its partners for solar cell efficiencies.
- The continuing need for higher speed, more powerful microprocessors and higher speed, ultra high density memories. This is driving the demand for new materials solutions based on silicon substrates including the incorporation of compound semiconductors directly onto silicon substrates. IQE has established powerful positions in both these technologies, working with some of the biggest names in the industry

Each of these markets has very powerful growth potential, with wireless being the current key driver.

## **5. OPERATIONAL UPDATE**

Following the acquisitions in 2006, we completed a number of key operational initiatives during 2007 to enhance the Group's productive efficiency, and leverage the inherent large manufacturing capacity in order to offer our customers multi-site, multi-platform manufacturing solutions. Most notably these successes include :

- the successful integration of both acquisitions, with both subsidiaries contributing strongly during 2007;
- securing a new state-of-the-art manufacturing facility in Singapore on very attractive terms, with the successful installation of equipment and initial manufacturing already commenced;
- the successful alignment of key switch technologies across the Group for dual-site manufacture for several customers;
- the transfer to, and successful product qualification of, advanced HBT (power amplifier) technology in Cardiff from New Jersey;
- the successful management of ramping production to satisfy rapid growth in customer demand and;
- the successful completion of several major R&D projects which are leading to significant follow on awards.

## **6. TRADING OUTLOOK**

Following the successful integration of the two major acquisitions made in 2006, the Group is widely recognised as the global market leader in advanced wafer outsourcing. The successes of 2007 have provided clear evidence of our core strategy delivering tangible results with a third consecutive year of substantially increased revenue and a return to operating profitability. In particular, with the successful qualification of various customers and new tools during Q4'07, the year ended very strongly.

Trading for the first quarter of 2008 has continued strongly, with revenues currently running between 30-40% ahead of the equivalent period last year, and the market conditions for IQE's products continuing to show robust demand driven principally by 3G and other high speed wireless applications.

Whilst we remain highly focussed on the wireless mobile communications markets, there are also a number of other key high growth and high volume opportunities being rapidly developed across the Group. As a result, we look forward to another year of high growth and sustained profitability.

**PRELIMINARY RESULTS  
FOR YEAR ENDED 31  
DECEMBER 2007**

<b>CONSOLIDATED INCOME STATEMENT</b>		<b>6 months to 31 Dec 2007</b>	<b>6 months to 31 Dec 2006</b>	<b>12 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2006</b>
(All figures GBP000s)	Note	Unaudited	Unaudited	Unaudited	Unaudited
<b>Revenue</b>		<b>26,385</b>	<b>17,830</b>	<b>50,065</b>	<b>32,421</b>
<b>Cost of sales</b>		<b>(22,031)</b>	<b>(16,747)</b>	<b>(41,838)</b>	<b>(30,072)</b>
<b>Gross profit</b>		<b>4,354</b>	<b>1,083</b>	<b>8,227</b>	<b>2,349</b>
<b>Selling, general and administrative expenses (including exceptional items)</b>	3	<b>(4,243)</b>	<b>(3,263)</b>	<b>(8,053)</b>	<b>(6,050)</b>
<b>Operating profit/(loss)</b>		<b>111</b>	<b>(2,180)</b>	<b>174</b>	<b>(3,701)</b>
Operating profit/(loss) %		0.4	(12.2)	0.3	(11.4)
Operating profit/(loss) before exceptional items		550	(2,180)	613	(3,956)
Exceptional items	3	(439)	0	(439)	255
Operating profit/(loss)		111	(2,180)	174	(3,701)
Operating profit/(loss) % before exceptional items		2.1	(12.2)	1.2	(12.2)
<b>Finance income</b>		<b>53</b>	<b>55</b>	<b>58</b>	<b>104</b>
<b>Finance costs</b>		<b>(523)</b>	<b>(224)</b>	<b>(1,094)</b>	<b>(393)</b>
<b>Loss for the period attributable to equity shareholders</b>		<b>(359)</b>	<b>(2,349)</b>	<b>(862)</b>	<b>(3,990)</b>
Basic Loss Pence per Ordinary 1p Share	4	(0.08)	(0.61)	(0.20)	(1.14)
Diluted Loss Pence per Ordinary 1p Share	4	(0.08)	(0.61)	(0.20)	(1.14)
<b>EBITDA is calculated as follows:</b>					
Loss for the period attributable to equity shareholders		<b>(359)</b>	<b>(2,349)</b>	<b>(862)</b>	<b>(3,990)</b>
Share based payments		<b>372</b>	<b>330</b>	<b>571</b>	<b>501</b>
Exceptional items		<b>439</b>	<b>0</b>	<b>439</b>	<b>(255)</b>
Net interest payable		<b>469</b>	<b>169</b>	<b>1,036</b>	<b>289</b>
Depreciation of tangible fixed assets		<b>1,289</b>	<b>935</b>	<b>2,400</b>	<b>1,617</b>
Amortisation of intangible fixed assets		<b>150</b>	<b>90</b>	<b>307</b>	<b>136</b>
<b>Earnings before interest, taxes, depreciation, amortisation and exceptionals (EBITDA)</b>		<b>2,360</b>	<b>(825)</b>	<b>3,891</b>	<b>(1,702)</b>

**CONSOLIDATED STATEMENT  
OF RECOGNISED  
INCOME AND EXPENSE**

**(All figures GBP000s)**

	<b>6 months to 31 Dec 2007</b>	<b>6 months to 31 Dec 2006</b>	<b>12 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
Loss for the period	<b>(359)</b>	<b>(2,349)</b>	<b>(862)</b>	<b>(3,990)</b>
Currency translation differences on foreign currency net investments	<b>(510)</b>	<b>(603)</b>	<b>(743)</b>	<b>(916)</b>
<b>Total recognised expense for the period</b>	<b>(869)</b>	<b>(2,952)</b>	<b>(1,605)</b>	<b>(4,906)</b>

<b>CONSOLIDATED BALANCE SHEET</b>	<b>As At</b>	<b>As At</b>
<b>(All figures GBP000s)</b>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
<b>Non-current assets :</b>		
Intangible assets	12,110	11,095
Tangible assets	17,243	11,803
<b>Total non-current assets</b>	<b>29,353</b>	<b>22,898</b>
<b>Current assets :</b>		
Inventories	7,643	8,580
Trade and other receivables	10,599	6,480
Cash and cash equivalents	11	4,071
<b>Total current assets</b>	<b>18,253</b>	<b>19,131</b>
<b>Total assets</b>	<b>47,606</b>	<b>42,029</b>
<b>Current liabilities :</b>		
Borrowings	(5,911)	(2,754)
Trade and other payables	(10,354)	(8,041)
<b>Total current liabilities</b>	<b>(16,265)</b>	<b>(10,795)</b>
<b>Non-current liabilities :</b>		
Borrowings	(8,259)	(7,234)
Deferred income	(122)	(160)
<b>Total non-current liabilities</b>	<b>(8,381)</b>	<b>(7,394)</b>
<b>Total liabilities</b>	<b>(24,646)</b>	<b>(18,189)</b>
<b>Net assets</b>	<b>22,960</b>	<b>23,840</b>
<b>Shareholders' equity :</b>		
Ordinary shares	4,310	4,299
Share premium	172,183	172,030
Other reserves	(1,092)	(910)
Profit and loss account	(152,441)	(151,579)
<b>Total shareholders' equity</b>	<b>22,960</b>	<b>23,840</b>

**Approved by the Directors of IQE plc on  
16 March 2008**

<b>CONSOLIDATED CASH FLOW STATEMENT</b> (All figures GBP000s)	6 months to 31 Dec 2007	6 months to 31 Dec 2006	12 months to 31 Dec 2007	12 months to 31 Dec 2006
Note	Unaudited	Unaudited	Unaudited	Unaudited
<b>Cash flows from operating activities :</b>				
Cash inflow/(outflow) from operations	6	1,435	(982)	1,828
Interest received		53	55	58
Interest paid		(335)	(198)	(763)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>1,153</b>	<b>(1,125)</b>	<b>1,123</b>
<b>Cash flows from investing activities :</b>				
Purchase of subsidiary undertakings		0	(11,227)	0
Cash acquired in subsidiary undertakings		0	1,023	0
Development expenditure		(642)	(222)	(1,372)
Investment in other intangible fixed assets		(20)	0	(20)
Purchase of tangible fixed assets		(3,840)	(454)	(7,814)
Proceeds from sale of tangible fixed assets		97	91	97
<b>Net cash used in investing activities</b>		<b>(4,405)</b>	<b>(10,789)</b>	<b>(9,109)</b>
<b>Cash flows from financing activities :</b>				
Issues of ordinary share capital		26	15,868	154
Loans and leases received/(repaid)		952	(1,077)	2,750
<b>Net cash generated from financing activities</b>		<b>978</b>	<b>14,792</b>	<b>2,904</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,274)</b>	<b>2,878</b>	<b>(5,082)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1,263</b>	<b>1,193</b>	<b>4,071</b>
<b>Cash and cash equivalents at the end of the period</b>	7	<b>(1,011)</b>	<b>4,071</b>	<b>(1,011)</b>

## NOTES TO THE PRELIMINARY RESULTS

### 1 BASIS OF PREPARATION

These unaudited preliminary results have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") and interpretations in issue at 31 December 2007.

The Group published an IFRS transition statement on 14 August 2007 which set 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. These are detailed in Notes 8 to 10 below.

The preliminary results were approved by the Board of Directors and the Audit Committee on 16 March 2008. The preliminary results do not constitute statutory accounts within the meaning of the Companies Act 1985 and have not been audited. Comparative figures in the results for the year ended 31 December 2006 have been taken from the IFRS preliminary results transitional statement. All periods presented are unaudited.

The preliminary results will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 17 March 2008. 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	12 months	12 months
	to 31 Dec 2007	to 31 Dec 2006
(All figures GBP000s)	Unaudited	Unaudited
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Revenue by business segment :		
Wireless	38,088	20,271
Optoelectronics	9,212	10,066
Electronics	2,765	2,084
Total revenue	50,065	32,421
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Operating profit/(loss) by business segment :		
Wireless	3,583	(166)
Optoelectronics	(2,840)	(2,361)
Electronics	(569)	(1,174)
Total operating profit/(loss)	174	(3,701)
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<b>3 EXCEPTIONAL ITEMS</b>	<b>12 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2006</b>
<b>(All figures GBP000s)</b>	<b>Unaudited</b>	<b>Unaudited</b>
Exceptional items comprise :		
Relocation costs	439	0
Onerous lease provisions	0	(255)
Exceptional items (included in selling, general and administrative expenses)	439	(255)

The exceptional charge of £439,000 in 2007 relates to the one-off costs incurred in relocating the Singapore operation to a new state-of-the-art facility. The relocation is progressing according to plan and will be completed during 2008.

The exceptional credit of £255,000 in 2006 relates to the release of an onerous lease provision in respect of a property which the Gropup has vacated.

<b>4 LOSS PER SHARE</b>	<b>6 months to 31 Dec 2007</b>	<b>6 months to 31 Dec 2006</b>	<b>12 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
Loss for the period GBP 000s	(359)	(2,349)	(862)	(3,990)
Weighted average number of ordinary shares	430,840,183	315,976,014	430,601,406	350,729,318
Diluted share options	14,883,360	8,593,469	14,883,360	8,593,469
Adjusted weighted average number of ordinary shares	445,723,543	324,569,483	445,484,766	359,322,787
Basic loss pence per share	(0.08)	(0.61)	(0.20)	(1.14)
Diluted loss pence per share	(0.08)	(0.61)	(0.20)	(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.

<b>5 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>6 months to 31 Dec 2007</b>	<b>6 months to 31 Dec 2006</b>	<b>12 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2006</b>
<b>(All figures GBP000s)</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
At the beginning of the period	23,430	10,595	23,840	12,325
Loss for the period attributable to equity shareholders	(359)	(2,349)	(862)	(3,990)
Share option costs credited to reserves	373	329	571	501
Shares issued net of issue costs	26	15,868	154	15,920
Net exchange differences offset in reserves	(510)	(603)	(743)	(916)
At the end of the period	22,960	23,840	22,960	23,840

<b>6 CASH GENERATED FROM OPERATIONS</b>	<b>6 months to 31 Dec 2007</b>	<b>6 months to 31 Dec 2006</b>	<b>12 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2006</b>
<b>(All figures GBP000s)</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
Operating loss	111	(2,180)	174	(3,701)
Depreciation of tangible assets	1,289	935	2,400	1,618
Amortisation of intangible assets	183	90	307	136
Loss/(gain) on sale of tangible assets	(5)	24	(5)	(38)
Government grants released	(19)	(19)	(39)	(39)
Non cash share based payments	372	330	571	501
Operating profit/(loss) before changes in working capital	1,931	(820)	3,408	(1,523)
Decrease/(increase) in inventories	451	(256)	937	(1,536)
(Increase)/decrease in trade and other receivables	(2,058)	(361)	(4,118)	(1,930)
Increase/(decrease) in trade and other payables	1,111	455	1,601	571
Cash inflow/(outflow) generated from operations	1,435	(982)	1,828	(4,418)

<b>7 ANALYSIS OF NET DEBT</b>	<b>As At 31 Dec 2007</b>	<b>As At 31 Dec 2006</b>
<b>(All figures GBP000s)</b>	<b>Unaudited</b>	<b>Unaudited</b>
Cash at bank and in hand	0	3,085
Highly liquid investments	11	986
<b>Total cash and cash equivalents</b>	<b>11</b>	<b>4,071</b>
Overdraft	(1,022)	0
Loans due after one year	(7,862)	(7,226)
Loans due within one year	(5,151)	(2,731)
Finance leases due after one year	(89)	(7)
Finance leases due within one year	(45)	(24)
<b>Total borrowings</b>	<b>(14,170)</b>	<b>(9,988)</b>
<b>Net debt</b>	<b>(14,159)</b>	<b>(5,917)</b>

<b>8 RECONCILIATION OF OPERATING LOSS FOR YEAR ENDED 31 DECEMBER 2006 UNDER UK GAAP TO IFRS</b>	<b>12 months to 31 Dec 2006</b>
<b>(All figures GBP000s)</b>	<b>Unaudited</b>
Operating loss per UK GAAP	(3,977)
Capitalisation of development costs	222
Amortisation of intangible assets	(136)
Amortisation of goodwill	166
Provision for holiday pay	24
<b>Operating loss per IFRS</b>	<b>(3,701)</b>

9 RECONCILIATION OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2005 UNDER UK GAAP TO IFRS  (All figures GBP000s)	UK GAAP Re-formatted	IFRS 3 Business Combinations	IAS 38 Intangible Assets	IAS 19 Employee Benefits	IFRS
	Unaudited	Unaudited	Unaudited	Unaudited	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)	(4,734)
Total current liabilities	(6,355)	0	0	(117)	(6,473)
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)	12,325
Shareholders' equity :					
Ordinary shares	3,163	0	0	0	3,163
Share premium	157,264	0	0	0	157,262
Other reserves	(509)	0	0	0	(509)
Profit and loss account	(147,594)	0	121	(117)	(147,591)
Total shareholders' equity	12,323	0	121	(117)	12,325

10 RECONCILIATION OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2006 UNDER UK GAAP TO IFRS	UK GAAP Re- formatted	IFRS 3 Business Combi- nations	IAS 38 Intangible Assets	IAS 19 Employee Benefits	IFRS
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Unaudited	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	22,764	(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	(2,754)	0	0	0	(2,754)
Trade and other payables	(8,162)	214	0	(93)	(8,041)
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	172,031	0	0	0	172,031
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

## **11 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 preliminary results for 2007.