

## IQE plc

# Continued strong growth drives revenues up 21% and underlying operating profit up sevenfold

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 2008.

### FINANCIAL HIGHLIGHTS

- Revenues up **21%** to **£60.5m** (2007: £50.1m) despite difficult economic conditions
- Continued margin improvement with gross profit\* up **43%** to **£11.8m** (2007: £8.2m)
- EBITDA\* more than doubled to **£8.4m** (2007: £3.9m)
- Underlying operating profit\* up almost **sevenfold** to **£4.0m** (2007: £0.6m) reflecting strong operational gearing
- Strong conversion of EBITDA into cash generated from operations\*, up more than fourfold to **£8.5m** (2007: £2.0m).
- Positive free cashflow\*\* of **£0.7m** (2007: outflow £7.1m)
- Net asset value increased from £23.0m to **£30.2m** during 2008
- Exceptional charges of **£3.9m** (2007: £0.4m) incurred for planned relocation of manufacturing facility in Singapore (£2.5m) and Group streamlining to reduce costs and improve efficiencies. This includes non-cash items of £2.8m.
- Retained profit\* of **£2.5m** (2007: loss £0.4m). After the impact of the exceptional items, total retained loss of £1.4m (2007: loss £0.9m).
- EPS\* at **0.59 pence** per share (2007: 0.10 pence loss per share). After the impact of the exceptional items a loss per share of 0.32 pence per share (2007 : 0.20 pence loss per share).

\* before exceptional items

\*\* free cash flow represents net cash flow before financing activities, interest and exceptional items

### BUSINESS HIGHLIGHTS

- Focus on high-growth markets delivers double-digit revenue growth for the fourth consecutive year and positions IQE strongly for the future.
- Growth principally driven by high speed wireless communications, 3G mobile devices, and optical products for fibre optic communications, consumer and office sectors. Significant progress on new products for clean solar power generation, high-efficiency LED lighting, and advanced products for the electronics sector.
- Rapidly developing a leadership position in the emerging solar power market, including cutting edge proprietary intellectual property. The foundations have been laid which position the Group to exploit fully the growth potential of this exciting market.

- Continued strong growth in pre-exceptional operating profitability demonstrating powerful, highly operationally geared business model.
- Proactive management to reduce the cost base by rationalising and consolidating operations to shape the business well for the current economic climate. The benefits of the improved efficiencies and reduced costs are already visible in 2009.
- Completion of investment programme will enable full impact of operational gearing in cash generation in 2009.

## TRADING OUTLOOK

- Signs that inventory reductions are coming to an end after slow Q1. Customer feedback coupled with recent industry news-flow indicate that demand should start to pick up in Q2 2009, accelerating through the second half of 2009.
- Investment in infrastructure and new product innovation has strongly positioned IQE to benefit from the upturn in the semiconductor markets.
- Robust long term market growth for Gallium Arsenide (GaAs) based products forecast, driven by high speed wireless communications (including smartphone devices for 3G and beyond), solar cells for renewable, clean energy generation, highly efficient LEDs for solid state lighting, and compound semiconductor integration with silicon for future generations of integrated circuits.

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

***“Despite the global economic downturn that caused a strong reduction in demand in the fourth quarter of 2008, IQE achieved record revenues and underlying operating profit, producing its fourth consecutive year of substantial double digit growth.***

***“The Group, which is the clear global market leader in advanced semiconductor wafer outsourcing, celebrated its twentieth anniversary during the year and achieved a number of important milestones. These included the relocation of its Singapore facility on time and within budget, and the development of an exciting range of new products, including those focussed on the burgeoning markets for renewable power generation and ultra high efficiency LED lighting sources.***

***“IQE’s continued growth during 2008 was 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. Whilst all sectors are currently suffering as a result of the global recession, it is “smartphone” products which are widely expected to be amongst the first to resume high growth once confidence returns to world markets.***

***“Our programme of reducing costs and investing in infrastructure and new product innovation has strongly positioned IQE to benefit from the upturn in the semiconductor markets.***

***“Operational cash generation was strong in 2008 and having completed our infrastructure investment programme, we expect free cash generation to improve significantly in 2009.***

***“Whilst it is anticipated that revenues during the first half of the year will be adversely affected by the global recession, we are seeing evidence that growth will resume in H2 2009 and that our exciting and innovative range of new products to address the global emphasis on energy efficiency is expected to contribute strongly to Group revenues in the latter half of 2009.”***

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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, WiMAX, base stations, GPS, and satellite communications; optical communications, optical storage (CD, DVD), laser optical mouse, laser printers & photocopiers, thermal imagers, leading-edge medical products, barcode, ultra high brightness LEDs, a variety of advanced silicon based systems and high efficiency concentrator photovoltaic (CPV) 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 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 Singapore. The Group also has 11 sales offices located in major economic centres worldwide.

## PRELIMINARY RESULTS 2008

### 1. OVERVIEW

2008 was a year that demonstrated the resilience and robustness of IQE's highly operationally geared business model and focus on high speed mobile products. The Group delivered significant quarter on quarter revenue growth for the first three quarters of 2008, performing well ahead of market expectations until the global recession made a sudden and significant adverse impact during the final quarter.

Despite the tumultuous market conditions, 2008 represented the Group's fourth consecutive year of strong growth, resulting in record revenues, pre-exceptional profitability and positive cash flows through its focus on high growth markets.

In recent years, handsets have evolved from basic voice communication tools with business users and consumers expecting much greater functionality and capability from their handheld devices. Advanced features such as web browsing, email and streaming video are rapidly becoming the new standard for mobile handsets. The primary markets for IQE's products comprise components for use in smartphone and related wireless devices that utilise advanced high speed RF communications technologies enabled by IQE's GaAs based wafers.

As the global economy deteriorated, the management took swift and decisive action to restructure and consolidate some of the operations in order to reduce costs, increase efficiencies and streamline processes. This will ensure the business can respond quickly to the upturn in the wireless sector, particularly in terms of smartphone products that utilise the advantages of emerging 3G, 4G and LTE capabilities.

The six operating units that make up IQE's business continued to work seamlessly together offering customers the most diverse range of wafer products from its global manufacturing base, to maintain the Group's unique position as the world's industry leader for advanced wafer outsourcing.

IQE's investment and diversification in new technologies has also positioned the business to take advantage of its capabilities for next generation products such as CPV solar cells and solid state lighting devices. Both of these technologies are expected to grow rapidly over the coming months and years as governments worldwide increase the drive towards ever efficient power generation and usage.

The leadership position that IQE has established in wireless technologies and the rapidly increasing position in solar power generation by CPV provide a degree of protection in the current economic climate.

### 2. RESULTS

Revenue of £60.5m was significantly higher than 2007 (£50.1m). From this 21% increase in revenues the business delivered a 43% increase in gross profit before exceptionals from £8.2m to £11.8m. This substantial improvement clearly demonstrates the powerful operational geared business model and the benefit of improved efficiencies.

Selling, General and Administrative expenses ("SG&A") before exceptionals were £7.8m (2007: £7.6m), in line with the volume growth in the business.

EBITDA (before exceptional items) for the year was £8.4m (2007: £3.9m), and operating profit (before exceptional items) was £4.0m (2007: £0.6m). This strong financial performance against the gloomy global economic backdrop reflects the strength of IQE's business model, operational gearing and the management's ability to deliver against a robust strategy.

Exceptional charges of £3.9m (2007: £0.4m) were incurred in completing the relocation of the Singapore business to a new state of the art facility (£2.5m), and the restructuring of the Group's

activities in order to streamline operations, reduce costs and improve efficiencies. Because this includes non-cash items, the exceptional cash outflow in 2008 was only £1.1m (2007: £0.2m).

Retained profit (before exceptional charges) was £2.5m (2007: loss £0.4m), representing a milestone performance for the Group and a profit per share of 0.59 pence per share (2007: 0.10 pence loss per share). After the impact of the exceptional items, total retained loss of £1.4m (2007 : loss £0.9m) and a loss per share of 0.32 pence per share (2007 : 0.20 pence loss per share).

Positive free cashflow\*\* of £0.7m (2007: outflow £7.1m) was achieved even after £7.8m investment in capital items, marking the completion of the final phase of a major capital programme.

Working capital was carefully managed and increased by only £0.2m on a £10.4m increase in revenues. This limited absorption of cash into working capital has assisted with the strong conversion of operating profit into a positive cash inflow from operations of £8.5m before exceptionals (2007: £2.0m).

Capital expenditure was £6.4m (2007: £7.8m). This marks the completion of the final phase of a significant investment programme. As a result there will be a much higher conversion of operating cash flow into free cash flow in 2009 as capital expenditure falls to maintenance levels of expenditure only. The Group also invested £1.5m (2007: £1.4m) in capitalised development expenditure which is expected to contribute to further revenue growth in 2009 and beyond.

Net debt at December 2008 was £18.1m (2007: £14.2m) and the banking facilities negotiated in January 2008 underpin a strong financial position, providing financial resilience in this difficult economic environment.

### **3. STRATEGY**

IQE's strategy to focus on fast growth, high volume technologies remains unchanged. During 2008, the Group's major markets were focussed in particular on high speed wireless communications and consumer optoelectronics.

During the year, the Group also invested in future technologies such as advanced solar cells, ultra efficient LEDs and ultra high speed microprocessor and memory chip materials technology for these fast growth emerging markets. The global emphasis on green technologies is expected to rapidly drive demand for some of these new technologies, particularly CPV solar cells for highly efficient energy generation.

In order to provide customers with the most competitive outsource wafer service globally, IQE has established 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 2008 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.

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

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

##### ***High Speed Wireless Communications***

- Despite the global economic downturn, it is clear that the adoption of high speed mobile communications will continue to grow albeit more slowly in the short term. Users' expectations and experience of broadband speeds along with the convenience of wireless and mobile connectivity will ensure that 3G, 4G, WiFi, WiMAX, WiBree, GPS and other wireless technologies will continue to grow even during a downturn, and are likely to experience highly accelerated growth as the recession comes to an end.

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.

##### ***Optoelectronic Products***

- Semiconductor lasers are the key enabling technology behind a vast array of industrial, office and consumer products including HD DVD, optical communications, laser mouse and laser projection. IQE's products offer the unique properties that are employed in semiconductor laser technologies. In particular, laser projection is considered one of the most exciting applications of this technology, providing the ability to project clear, bright images and videos from a small handheld device such as a handset.

##### ***Energy Efficient Solar and Lighting Products***

- There has never before been a greater impetus to develop clean, efficient and sustainable energy sources (solar cells), and highly efficient light sources (LEDs) in order to reduce the impact on global warming through climate change, reliance on fossil fuels and provide a much cleaner environment. IQE's products play a critical role in both highly efficient energy generation and highly efficient lighting devices. IQE's development work on world record efficiencies for solar energy generation is widely recognised and the Group expects to begin volume production of products for CPV solar cells during the latter half of 2009.

##### ***Advanced Electronics***

- Advanced semiconductor wafers provide the way forward for more powerful microprocessors and higher speed, ultra high density memories. New materials solutions based on silicon substrates including the incorporation of Germanium and compound semiconductors directly onto silicon substrates provides mainstream semiconductor manufacturers with a way of maintaining Moore's law as current silicon based geometries reach some significant physical barriers and fundamental scaling roadblocks. IQE has established powerful positions in both these technologies, working with some of the biggest names in the industry and has recently been granted a joint patent with Intel for the production of III-V materials on silicon substrates.

Each of these markets has very powerful growth potential, and although wireless has been and will continue to be a core driver, IQE has developed a diverse range of powerful new products and technologies which it will be bringing to market during H2 2009 and beyond.

## 5. OPERATIONAL UPDATE

In order to maintain its world leading position in a fast moving, global environment, the Group adopted a philosophy of continual improvement across all its operations to ensure production efficiencies are optimised and to allow its inherent large scale manufacturing capacity to be leveraged effectively to offer its customers' multi-site, multi-platform manufacturing solutions.

A key strength in IQE's offering is the ability to supply a diverse range of products from multiple manufacturing sites. A great deal of effort has been put into aligning products and processes across its six global facilities in Europe, Asia and the USA in order to provide customers with identical products from various locations. This is a proposition that is unique to IQE and has been made possible through IQE's global engineering teams who help bring together best practice from each of the global manufacturing facilities.

As part of the programme to align products and processes across all manufacturing facilities, a number of tools have been successfully transferred between sites to balance capacity and loading, thereby optimising production efficiencies.

The Group has also been proactive in engaging with customers on major quality improvement programmes. Such initiatives have been demonstrated to help its customers gain distinct competitive advantages and consequently increase their market share and the subsequent higher demand for IQE's products.

The Group has also successfully secured and delivered on a number of key research and development contracts that help ensure IQE's position with leading edge technologies and embeds IQE materials in next generation devices. New contracts to help IQE maintain its lead in these areas are continually being awarded.

Towards the end of 2008, the Group proactively cut costs in order to prepare for the challenging market conditions ahead, whilst maintaining its ability to rapidly respond to increased demand as customers require. This has resulted in some short time working arrangements, temporary pay reductions, and restructuring of specific operations to further improve effectiveness. This restructuring resulted in exceptional costs of £1.4m, of which the majority relates to non-cash items from asset write downs.

Additionally, the successful relocation of the Singapore facility to a state-of-the-art clean room complex which was completed in November 2008 on time and within expectations of cost.

## 6. TRADING OUTLOOK

Inventory destocking in Q4 2008 continued into Q1 2009 right across the semiconductor supply chain although some pickup in demand is expected in the second quarter. Customers are expected to be cautious about building up inventory. As a consequence, IQE's management feel it prudent to anticipate a decline in first-half revenues compared with the second half of 2008.

However, the Group already sees indications that the markets will begin to gain strength during the second quarter as inventories stabilise and customer pulls return to actual consumption levels.

Expectations are that the wireless market, particularly the smartphone segment, will resume growth during the second half of the year driven by the significant roll out of 3G and other high speed wireless applications. Furthermore, products such as CPV solar cells are expected to generate meaningful revenues during the second half of the year, together with initial revenues from the introduction of additional products developed over the past couple of years.

The key focus for 2009 will remain on the wireless mobile communications and optoelectronic products. However, advanced solar cells markets and a number of other key high growth and high volume opportunities being rapidly developed across the Group will increasingly play a role in the Group's core activities.

The Board remains confident about the Group's ability to increase revenue, profitability and cash generation over the coming years.

*Dr Drew Nelson, CEO, IQE plc*

**PRELIMINARY RESULTS FOR YEAR ENDED  
31 DECEMBER 2008**

<b>CONSOLIDATED INCOME STATEMENT</b>		<b>6 months to 31 Dec 2008</b>	<b>6 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2008</b>	<b>12 months to 31 Dec 2007</b>
(All figures £000s)	Note	Unaudited	Unaudited	Unaudited	Audited
<b>Revenue</b>	2	<b>30,307</b>	<b>26,385</b>	<b>60,485</b>	<b>50,065</b>
Cost of sales (including exceptional items)		(25,729)	(22,031)	(51,898)	(41,838)
<b>Gross profit</b>		<b>4,578</b>	<b>4,354</b>	<b>8,587</b>	<b>8,227</b>
Gross profit before exceptional items		6,518	4,354	11,755	8,227
Exceptional items	3	(1,940)	-	(3,168)	-
<b>Selling, general and administrative expenses (including exceptional items)</b>		<b>(4,520)</b>	<b>(4,243)</b>	<b>(8,518)</b>	<b>(8,053)</b>
<b>Operating profit</b>	2	<b>58</b>	<b>111</b>	<b>69</b>	<b>174</b>
Operating profit before exceptional items	2	2,421	550	4,000	613
Exceptional items	3	(2,363)	(439)	(3,931)	(439)
<b>Finance income</b>		<b>6</b>	<b>53</b>	<b>26</b>	<b>58</b>
<b>Finance costs</b>		<b>(740)</b>	<b>(523)</b>	<b>(1,480)</b>	<b>(1,094)</b>
<b>Loss attributable to equity shareholders</b>		<b>(676)</b>	<b>(359)</b>	<b>(1,385)</b>	<b>(862)</b>
Pre exceptional earnings pence per share	4	0.29	0.02	0.59	(0.10)
Basic Loss Pence per Ordinary 1p Share	4	(0.16)	(0.08)	(0.32)	(0.20)
Diluted Loss Pence per Ordinary 1p Share	4	(0.16)	(0.08)	(0.32)	(0.20)

**EBITDA** (Earnings before interest, taxes, depreciation, amortisation and exceptionals) **is calculated as follows:**

Loss attributable to equity shareholders	(676)	(359)	(1,385)	(862)
Share based payments	450	372	884	571
Exceptional items	2,363	439	3,931	439
Net finance costs	734	470	1,454	1,036
Depreciation of tangible fixed assets	1,694	1,289	3,076	2,400
Amortisation of intangible fixed assets	242	183	447	307
<b>EBITDA</b>	<b>4,807</b>	<b>2,394</b>	<b>8,407</b>	<b>3,891</b>

**CONSOLIDATED STATEMENT OF  
RECOGNISED  
INCOME AND EXPENSE**

(All figures £000s)	6 months to 31 Dec 2008	6 months to 31 Dec 2007	12 months to 31 Dec 2008	12 months to 31 Dec 2007
	Unaudited	Unaudited	Unaudited	Audited
Loss for the period	(676)	(359)	(1,385)	(862)
Currency translation differences on foreign currency net investments	7,482	(510)	7,723	(743)
<b>Total recognised income / (expense)</b>	<b>6,806</b>	<b>(869)</b>	<b>6,338</b>	<b>(1,605)</b>

<b>CONSOLIDATED BALANCE SHEET</b>		<b>As At</b>	<b>As At</b>
<b>(All figures £000s)</b>	<b>Note</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
		<b>Unaudited</b>	<b>Audited</b>
<b>Non-current assets :</b>			
Intangible assets		14,675	12,110
Tangible assets		25,626	17,243
<b>Total non-current assets</b>		<b>40,301</b>	<b>29,353</b>
<b>Current assets :</b>			
Inventories		11,262	7,643
Trade and other receivables		11,671	10,599
Cash and cash equivalents		-	11
<b>Total current assets</b>		<b>22,933</b>	<b>18,253</b>
<b>Total assets</b>		<b>63,234</b>	<b>47,606</b>
<b>Current liabilities :</b>			
Borrowings	7	(8,090)	(5,911)
Trade and other payables		(14,798)	(10,354)
<b>Total current liabilities</b>		<b>(22,888)</b>	<b>(16,265)</b>
<b>Non-current liabilities :</b>			
Borrowings	7	(10,045)	(8,259)
Deferred income		(83)	(122)
<b>Total non-current liabilities</b>		<b>(10,128)</b>	<b>(8,381)</b>
<b>Total liabilities</b>		<b>(33,016)</b>	<b>(24,646)</b>
<b>Net assets</b>		<b>30,218</b>	<b>22,960</b>
<b>Shareholders' equity :</b>			
Ordinary shares		4,333	4,310
Share premium	9	87	172,183
Other reserves		7,342	(1,092)
Profit and loss account	9	18,456	(152,441)
<b>Total shareholders' equity</b>	5	<b>30,218</b>	<b>22,960</b>

<b>CONSOLIDATED CASH FLOW STATEMENT</b>		<b>6 months to 31 Dec 2008</b>	<b>6 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2008</b>	<b>12 months to 31 Dec 2007</b>
<b>(All figures £000s)</b>	<b>Note</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>
<b>Cash flows from operating activities :</b>					
Cash inflow from operations	6	4,703	1,435	7,461	1,828
Cash inflow from operations before exceptional items		5,161	1,650	8,526	2,043
Exceptional items	3	(458)	(215)	(1,065)	(215)
Interest received		6	53	26	58
Interest paid		(1,056)	(335)	(1,531)	(763)
<b>Net cash inflow from operating activities</b>		<b>3,653</b>	<b>1,153</b>	<b>5,956</b>	<b>1,123</b>
<b>Cash flows from investing activities :</b>					
Development expenditure		(734)	(642)	(1,520)	(1,372)
Investment in other intangible fixed assets		(34)	(20)	(134)	(20)
Purchase of tangible fixed assets		(3,756)	(3,840)	(6,361)	(7,814)
Proceeds from sale of tangible fixed assets		179	97	179	97
<b>Net cash used in investing activities</b>		<b>(4,345)</b>	<b>(4,405)</b>	<b>(7,836)</b>	<b>(9,109)</b>
<b>Cash flows from financing activities :</b>					
Issues of ordinary share capital		101	26	208	154
Loans and leases (repaid)/received		(1,983)	952	1,755	2,750
<b>Net cash (used in)/generated from financing activities</b>		<b>(1,882)</b>	<b>978</b>	<b>1,963</b>	<b>2,904</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,574)</b>	<b>(2,274)</b>	<b>83</b>	<b>(5,082)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1,646</b>	<b>1,263</b>	<b>(1,011)</b>	<b>4,071</b>
<b>Cash and cash equivalents at the end of the period</b>	7	<b>(928)</b>	<b>(1,011)</b>	<b>(928)</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") as adopted by the European Union and interpretations in issue at 31 December 2008.

The preliminary results were approved by the Board of Directors and the Audit Committee on 20 March 2009. 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 2007 have been taken from the 2007 audited annual accounts.

The preliminary results will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 24<sup>th</sup> March 2009. Copies will be available to members of the public upon application to the Finance Director at Pascal Close, Cardiff CF3 0LW.

2 SEGMENTAL INFORMATION (All figures £000s)	12 months to 31 Dec 2008	12 months to 31 Dec 2007
	Unaudited	Audited
<b>Revenue by business segment :</b>		
Wireless	48,490	38,088
Optoelectronics	10,169	9,212
Electronics	1,826	2,765
<b>Total revenue</b>	<b>60,485</b>	<b>50,065</b>
<b>Operating profit/(loss) by business segment before exceptional items :</b>		
Wireless	7,356	4,022
Optoelectronics	(1,999)	(2,840)
Electronics	(1,357)	(569)
<b>Total operating profit before exceptional items</b>	<b>4,000</b>	<b>613</b>
<b>Operating profit/(loss) by business segment :</b>		
Wireless	4,381	3,583
Optoelectronics	(2,645)	(2,840)
Electronics	(1,667)	(569)
<b>Total operating profit</b>	<b>69</b>	<b>174</b>

3 EXCEPTIONAL ITEMS	12 months to	12 months to
	31 Dec 2008	31 Dec 2007
(All figures £000s)	Unaudited	Audited
Exceptional items comprise :		
Relocation costs	2,486	439
Group restructuring costs	1,445	-
Exceptional items	3,931	439

The relocation costs of £2,486,000 (2007: £439,000) relates to the one-off costs incurred in relocating the Singapore operation to a new state-of-the-art facility. The relocation was completed in November 2008. The cash outflow in the year was £990,000 (2007: £215,000).

During the fourth quarter, the Group restructured its activities and operations to reduce its operating costs. This involved a 16% reduction in headcount in addition to a streamlining of certain manufacturing activities. As a result the Group incurred an exceptional charge of £1,445,000 (2007: nil), the majority of which was a non-cash charge relating to the write down of assets. The cash outflow in the year was £75,000 (2007: nil). It is evident from the current financial performance of the Group that this restructuring is delivering a marked improvement in operating efficiency, which realigns the Group's costs base with current activity levels.

4 LOSS PER SHARE	6 months to	6 months to	12 months to	12 months to
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	Unaudited	Unaudited	Unaudited	Audited
Loss for the period £ 000s	(676)	(359)	(1,385)	(862)
Weighted average number of ordinary shares	432,907,152	430,840,183	432,207,766	430,601,406
Pre exceptional earnings pence per share	0.29	0.02	0.59	(0.10)
Basic loss pence per share	(0.16)	(0.08)	(0.32)	(0.20)
Diluted loss pence per share	(0.16)	(0.08)	(0.32)	(0.20)

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 decreased by the exercise of options, hence options are not considered to be dilutive.

<b>5 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>6 months to 31 Dec 2008</b>	<b>6 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2008</b>	<b>12 months to 31 Dec 2007</b>
<b>(All figures £000s)</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>
At the beginning of the period	23,033	23,430	22,960	23,840
Loss attributable to equity shareholders	(676)	(359)	(1,385)	(862)
Share option costs credited to reserves	313	373	747	571
Shares issued net of issue costs	66	26	173	154
Net exchange differences offset in reserves	7,482	(510)	7,723	(743)
At the end of the period	30,218	22,960	30,218	22,960

<b>6 CASH GENERATED FROM OPERATIONS</b>	<b>6 months to 31 Dec 2008</b>	<b>6 months to 31 Dec 2007</b>	<b>12 months to 31 Dec 2008</b>	<b>12 months to 31 Dec 2007</b>
<b>(All figures £000s)</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>
Operating profit	58	111	69	174
Depreciation of tangible assets	1,694	1,289	3,076	2,400
Amortisation of intangible assets	242	183	447	307
Loss/(gain) on sale of tangible assets	6	(5)	6	(5)
Government grants released	(20)	(19)	(39)	(39)
Non cash exceptional costs – impairment of development costs	521	-	521	-
Non cash exceptional costs – other costs	1,384	224	2,345	224
Non cash share based payments	450	372	884	571
Cash inflow from operations before changes in working capital	4,335	2,155	7,309	3,632
(Increase)/decrease in inventories	(240)	451	(1,426)	937
Decrease/(increase) in trade and other receivables	3,553	(2,058)	1,618	(4,118)
(Decrease)/increase in trade and other payables	(2,945)	887	(40)	1,377
Cash inflow generated from operations	4,703	1,435	7,461	1,828

<b>7 ANALYSIS OF NET DEBT</b>	<b>As At</b>	<b>As At</b>
<b>(All figures £000s)</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
	<b>Unaudited</b>	<b>Audited</b>
Overdraft	<b>(928)</b>	<b>(1,022)</b>
Highly liquid investments	-	<b>11</b>
Total cash and cash equivalents	<b>(928)</b>	<b>(1,011)</b>
Loans due after one year	<b>(9,961)</b>	<b>(8,170)</b>
Loans due within one year	<b>(7,098)</b>	<b>(4,843)</b>
Finance leases due after one year	<b>(84)</b>	<b>(89)</b>
Finance leases due within one year	<b>(64)</b>	<b>(46)</b>
Total borrowings	<b>(17,207)</b>	<b>(13,148)</b>
Net debt	<b>(18,135)</b>	<b>(14,159)</b>

## **8 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. HM Revenue & Customs formally cancelled the claim on 10 October 2008.

## **9 CAPITAL REDUCTION**

During the year the Group took action to eliminate the accumulated deficit in its profit and loss reserve. This was achieved by obtaining a court order, permitting the Group to eliminate the share premium as at 30 June 2008 and transfer its value at this date of £172,280,655 to the profit and loss reserve.