

24 March 2010

IQE plc

Strong H2 secures £3.0m full year operating profit and £3.7m free cash flow

IQE plc (AIM: IQE, "IQE" or the "Group"), the leading global supplier of advanced wafer products and wafer services to the semiconductor industry, publishes audited results for the year ended 31 December 2009.

Financial highlights

- Record H2 revenues of £31.2m result in full-year revenues of £52.7m (2008: £60.5m)
- Sequential revenue growth of 46% in H2 demonstrates strong recovery after industry wide inventory adjustments in H1
- Improved efficiency boosts gross margins to 22% resulting in £11.6m of gross profit (2008: 19%, £11.8m*)
- High operational gearing and tight cost control delivers second half EBITDA of £6.1m - full year EBITDA £8.1m (2008: £8.4m*)
- Pre-tax profit £2.1m (2008: loss £1.4m)
- Basic EPS of 0.47p (2008: loss 0.32p per share)
- Capital expenditure of £1.4m (2008: £6.6m) - normal maintenance levels following conclusion of 2008 major capital programme
- Strong trading performance and cash management generated free cash flow* of £3.7m (2008: £0.7m)
- Net debt reduced to £14.9m (2008: £18.1m)

* Stated before exceptional costs and cash flows relating to relocation and restructuring undertaken in 2008

Operational highlights

- Fulfilled goal of qualifying with all major wireless chip manufacturers
- NanoGaN acquisition brings valuable IP, accelerates high power LED and blue/green laser development
- Significant new patents in solar and advanced electronics secured

Dr Drew Nelson, IQE Chief Executive, said:

"We made excellent progress in 2009 on all fronts - strategic, operational and financial. We continue to build on our market leadership, and by continued investment in R&D throughout the downturn. We now have a product range that addresses almost all of the rapidly growing markets for compound semiconductor materials.

"We demonstrated a high degree of operational and financial resilience through a challenging year thanks to proactive management, and a committed and professional workforce. This has enhanced our customers' confidence in us and builds on the strong relationships that we enjoy with them. We believe that this positions us well to continue to grow our market share.

"I am extremely pleased with our progress on developing intellectual property for the solar power and advanced electronics markets. These advances are keeping us at the forefront of emerging markets, and give me confidence that we will emerge as a clear leader as these markets move from development phase into production.

"We are at a very exciting time in the Group's history. We continue to make excellent progress in our core wireless business, whilst at the same time are building an IP rich advanced semi-conductor 'power house' that is uniquely positioned to take advantage of the high growth markets that are rapidly emerging in areas such as solid state lighting (SSL), CPV solar cells and consumer electronics. We are confident that IQE is well positioned to achieve continued growth in sales in 2010."

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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.

1. OVERVIEW

2009 was a year of strong progress against the Group's strategic, operational and financial objectives, despite the tough economic environment.

After a challenging start to the year, the full year returned a strong financial performance, demonstrating the resilience of the organisation and the strength of the highly operationally geared business model.

As predicted, the rapid destocking that began in the fourth quarter of 2008 caused a severe reduction in volumes across all of the primary markets. Inevitably, the impact of the destocking continued into 2009, but started to ease towards the end of the first half.

Customer demand normalised in July 2009 and continued strongly throughout the second half to deliver half on half revenue growth of over 45% with the Group rapidly returning to high volumes. This was a significant achievement on the back of a major cost reduction programme and confirms the Group's customers' well-placed confidence in IQE, and its operational resilience.

Beyond the strong operational performance, and success in strengthening the business during a challenging time, IQE has also achieved a number of other milestones of strategic importance:

- Attracted the best talent from throughout the industry including a number of high profile appointments into the technical, sales and group management teams;
- Achieved qualification with all of the major wireless chip makers, putting IQE in a very strong position to continue to grow its market share organically and mitigating customer risk;
- Developed significant intellectual property including a number of patents relating to solar power and advanced electronics; and
- Completed the acquisition of NanoGaN Limited (NanoGaN), which brought exciting new talent and patented IP to IQE. This has accelerated the progress against the Group's technology roadmap for solid state lighting (residential and commercial lighting using LEDs) and advanced laser applications (laser projection systems for mobile phones, digital cameras and office applications).

2. RESULTS

The well-documented destocking adversely affected the Group's financial performance during the first half of 2009, but a strong recovery during the second half saw a 46% half on half increase in sales to give total revenue for the year of £52.7m. Inevitably, as a result of the slow first half, full year sales were lower than the prior year (£60.5m).

Gross profit margins, (before exceptional items) improved from 19% to 22% year on year, despite lower volumes, reflecting strong cost control and the benefit of improved efficiencies as a result of the restructuring undertaken in 2008.

Selling, general and administrative expenses remained tightly controlled at £8.5m (2008: £8.5m), and EBITDA was only slightly down to £8.1m (2008: £8.4m).

Operating profit was £3.0m (2008: £69,000 or £4.0m before exceptional items).

The Group reported a pretax profit of £2.1m (2008: loss £1.4m or £2.5m profit before exceptional items). At the end of 2009 the Group had an unrecognised deferred tax asset of £29.5m largely relating to historic tax losses. These losses will be utilised to reduce the tax payable on future profits of certain UK and US business units.

Earnings per share were 0.47p (2008: loss 0.32p or profit 0.59p before exceptional items).

In cash flow, the Group converted the EBITDA of £8.1m (2008: £8.4m) into a cash inflow from operations of £8.1m (2008: £8.5m), a 100% cash conversion rate (2008: 101%) before exceptional items.

IQE invested £2.3m (2008: £1.5m) in development expenditure, relating to the qualification of new wireless products and the development of new solar and gallium nitride products. These development activities are expected to generate increased sales as projects are completed in the near future.

The Group also invested £1.4m in capital expenditure compared with £6.6m in the prior year. The cash outflow for capital expenditure was £1.7m (2008: £6.4m) when taking into account a £0.3m reduction (£0.2m increase) in capital creditors. The year-on-year reduction in capital expenditure reflects the completion of a major capital investment programme in 2008 and the return to a maintenance level of capital expenditure in 2009.

The strong operating cash flow and low level of capital expenditure contributed to a significant improvement in free cash flow (net cash flow before financing activities and debt service), which increased from £0.7m in 2008 to £3.7m in 2009 (before exceptional items). With the absorption of £1.3m of free cash during the first half, the free cash generation in the second half was £5.0m.

The strong free cash generation resulted in a £3.2m year-on-year reduction in net debt to £14.9m (2008: £18.1m) and a reduction of £4.1m during the second half.

3. STRATEGY

IQE's strategy is to focus on high-growth, high-volume technologies. During 2009, the Group's major markets were focused in particular on high-speed wireless communications and rapidly emerging technologies such as advanced solar cells, ultra-efficient LEDs and ultra-high-speed microprocessor and memory-chip materials.

The global emphasis on green technologies is expected to create high demand for some of these new technologies, particularly CPV solar cells for highly efficient energy generation and consumer optoelectronics. IQE's capabilities in these fields have been enhanced with the acquisition of some significant new intellectual property in a number of key technologies.

In order to provide customers with the most competitive global wafer outsourcing service, IQE has established, including:

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

4. PRODUCTS AND MARKETS

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

High-Speed Wireless Communications

Approximately 80% of Group sales in 2009 were into the wireless market. This is a global market spanning a broad range of applications from mobile phones, mobile laptops, mobile netbooks, Wi-Fi enabled devices, GPS devices, mobile infrastructure, and direct broadcast satellite TV.

These are high-growth markets that are expected to grow rapidly for the foreseeable future, driven by 3G communications and increasing demand for mobile internet.

IQE is the largest epitaxial foundry, giving critical mass in an industry where economies of scale enable a wide range of advantages including cost and technology leadership. Industry analysts estimate that IQE's share of the outsource market is approximately 30%. IQE's nearest competitors are estimated to command approximately 15% of the market.

There remain excellent growth prospects for IQE in this global market. The overall market is growing, the outsource segment of the market is increasing, and IQE is seeking to increase its market share by leveraging its broad customer base and its unique competitive advantages. These are its technology leadership, cost leadership and the security of supply provided by its multi-site capability and its large installed capacity.

Optoelectronics

This market accounts for approximately 15% of IQE's sales but is expected to increase very rapidly over the next few years. In broad terms, optoelectronics refers to devices that convert electricity into light (lasers and LEDs) or light into electricity (fibre optic communication receivers and solar power generation).

It is a diverse market with a broad range of applications including LEDs, lasers for data storage (CD, DVD, Blu Ray), lasers for office applications (laser printers, laser mouse), medical and industrial lasers, and components for fibre-optic communication systems covering all applications from USB cables to long distance telecommunication networks.

Optical communications

The fibre-optic communications market is set to enjoy significant growth over the coming years as the proliferation of video streaming and social networking on the internet continue to consume bandwidth at an exponential rate. Governments and corporations are embarking on major investment programmes to increase the bandwidth of fibre-optic networks to meet this increasing demand.

Consumer Optoelectronics

This diverse area is set to grow very rapidly in the coming years as optical devices penetrate large segments of the consumer markets, including the following areas:

(i) Active Optical Cables and Plastic Optical Fibre (LightPeak)

The increase in data transfer rates is also driving investment in optical communication at peripheral level. Active Optical Cables (AOC) look set to replace existing interconnects such as USB and HDMI cables, as these traditional cables struggle to meet the increasing demands for data transfer. The current market for USB cables alone is estimated at 3 billion per annum. Intel is leading the way in this area with its recently announced 'Light Peak' project.

(ii) Optical Storage (Blu Ray, DVD)

As data storage requirements grow, high density storage media are required, including Blu Ray Disc which used shorter wavelength blue lasers to store large amounts of data. IQE's technology includes red lasers for DVD, and through NanoGaN are developing blue laser technology for both Blu Ray and blue/green lasers for projection systems

(iii) Office equipment and Sensing

This market includes various optical devices for office equipment such as laser printers, high resolution photocopy machines and laser mouse for computer navigation. IQE supplies many of the materials used for such applications

(iv) Laser projection

IQE acquired UK based NanoGaN in October 2009. NanoGaN brings exciting new intellectual property to IQE, including its proprietary nanocolumn technology for producing high quality Gallium Nitride advanced semiconductor materials (GaN). This material is critical for the emerging high growth laser projection (red, green and blue lasers) and solid state lighting (SSL) markets.

Laser projection systems have performance, efficiency and size advantages over conventional projection systems. In particular, this technology will offer high quality miniature projectors that have been termed

'pico projectors', which will extend this application for incorporation into mobile phones and into digital cameras to support mobile video streaming and image projection. Industry analysts predict rapid growth for laser projection, given the scale and growth in mobile devices.

Solid-state lighting (SSL)

Solid-state lighting is widely viewed as the only credible long term solution to replace the incandescent light bulb. Efficient energy consumption will remain a key driver in the development and adoption of this technology, but the critical success factors are reducing cost and improving the ambience of solid-state lighting units. High-quality gallium nitride provides the route map to achieving this, which will revolutionise residential and commercial lighting in the coming years.

Solar power generation

The efficiency at which solar cells convert sunlight into electricity is a key determinant in their size and cost. Solar cells that use advanced semiconductors (called CPV or Concentrator PhotoVoltaics) provide the most efficient solution by using multiple layers of finely tuned materials to absorb sunlight across a wider range of wavelengths.

Industry analysts predict that CPV will reach cost parity with fossil fuels within the next 2 to 3 years. This will be a key catalyst for large scale adoption, creating a market for epitaxy which could outgrow the current wireless market in only a few years.

Electronics

IQE's electronics business provides advanced epitaxy services on silicon, which account for almost 5% of Group sales. Part of this business is engaged in mainstream consumer electronics market and accordingly suffered more significantly as a result of the global economic downturn. Recovery in this market sector lagged that of the rest of the business but has seen a pick-up in demand in recent months.

The Group has also developed a powerful range of engineered wafers based on silicon substrates such as germanium-on-insulator (GeOI), germanium-on-silicon (GeOSi) and silicon-on-sapphire (SOS), which help ensure the continuation of Moore's Law for continuing enhancements to microprocessor performance.

The intellectual property that the Group is developing in this field has the potential to revolutionise the semiconductor world, and create significant long term value.

6. TRADING OUTLOOK

IQE is widely recognised as the global market leader in advanced semi-conductor materials. The technical, operational and financial successes of recent years provide clear evidence of the Group's forward momentum and endorse its strategy, management and execution.

2010 promises to be another exciting year for IQE as it expands its technology leadership and builds market share in new, rapidly growing sectors such as active optical cables, laser projection, LED lighting and CPV solar energy.

The Group's solid financial performance achieved during a particularly difficult year, coupled with a comprehensive portfolio of products, services and intellectual property, underline the Board's confidence in IQE's ability to increase revenue, profitability and cash generation over the coming years.

Dr Drew Nelson, CEO, IQE plc

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2009

	Note	H2 2009 £'000 unaudited	H2 2008 £'000 unaudited	2009 £'000 audited	2008 £'000 audited
Revenue	2	31,231	30,307	52,652	60,485
Cost of sales		(23,459)	(25,729)	(41,073)	(51,898)
Gross profit		7,772	4,578	11,579	8,587
Gross profit before exceptional items		7,772	6,518	11,579	11,755
Exceptional items	3	-	(1,940)	-	(3,168)
Selling, general and administrative expenses		(3,895)	(4,520)	(8,535)	(8,518)
Operating profit	2	3,877	58	3,044	69
Operating profit before exceptional items	2	3,877	2,421	3,044	4,000
Exceptional items	3	-	(2,363)	-	(3,931)
Finance costs		(458)	(734)	(986)	(1,454)
Profit/(loss) for the period attributable to equity shareholders		3,419	(676)	2,058	(1,385)
Pre-exceptional earnings per share	4	0.77p	0.29p	0.47p	0.59p
Basic earnings per share	4	0.77p	(0.16p)	0.47p	(0.32p)
Diluted earnings per share	4	0.71p	(0.16p)	0.44p	(0.32p)

EBITDA (Earnings before Interest, Taxes, Depreciation, Amortisation and Exceptionals) is calculated as follows:

	2009 £'000	2008 £'000
Profit/(loss) attributed to equity shareholders	2,058	(1,385)
Share based payments	898	884
Exceptional costs	-	3,931
Net finance costs	986	1,454
Depreciation of tangible fixed assets	3,372	3,076
Amortisation of intangible fixed assets	737	447
EBITDA	8,051	8,407
EBITDA was generated during the period as follows:		
H1 EBITDA (unaudited)	1,909	3,600
H2 EBITDA (unaudited)	6,142	4,807
Full year EBITDA (audited)	8,051	8,407

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	2009 £'000	2008 £'000
Profit/(loss) for the period	2,058	(1,385)
Currency translation differences on foreign currency net investments	(3,859)	7,723
Revaluation gain of initial investment on acquisition	28	-
Total comprehensive (expense)/income for the period	(1,773)	6,338

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange rate reserve £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2009	4,333	124	18,455	5,604	1,702	30,218
Comprehensive income						
Profit for the period	-	-	2,058	-	-	2,058
Foreign exchange translation differences	-	-	-	(3,859)	-	(3,859)
Revaluation gain on business combination	-	-	-	-	28	28
Total comprehensive income	-	-	2,058	(3,859)	28	(1,773)
Transactions with owners						
Employee share option scheme	-	-	-	-	264	264
Shares issued for business combination	58	709	-	-	-	767
Other issues of ordinary shares	44	317	-	-	-	361
Total transactions with owners	102	1,026	-	-	264	1,392
Balance at 31 December 2009	4,435	1,150	20,513	1,745	1,994	29,837
Balance at 1 January 2008	4,310	172,183	(152,441)	(2,119)	1,027	22,960
Comprehensive income						
Loss for the period	-	-	(1,385)	-	-	(1,385)
Foreign exchange translation differences	-	-	-	7,723	-	7,723
Total comprehensive income	-	-	(1,385)	7,723	-	6,338
Transactions with owners						
Employee share option scheme	-	-	-	-	747	747
Issues of ordinary shares	23	222	-	-	(72)	173
Capital reduction	-	(172,281)	172,281	-	-	-
Total transactions with owners	23	(172,059)	172,281	-	675	920
Balance at 31 December 2008	4,333	124	18,455	5,604	1,702	30,218

CONSOLIDATED BALANCE SHEET
as at 31 December 2009

	Note	2009 £'000	2008 £'000
Non-current assets:			
Intangible assets		19,182	14,675
Property, plant and equipment		21,365	25,626
Total non-current assets		40,547	40,301
Current assets:			
Inventories		10,789	11,262
Trade and other receivables		13,261	11,671
Cash and cash equivalents	6	4,233	-
Total current assets		28,283	22,933
Total assets		68,830	63,234
Current liabilities:			
Borrowings	6	(6,573)	(8,090)
Trade and other payables		(16,770)	(14,798)
Total current liabilities		(23,343)	(22,888)
Non-current liabilities:			
Borrowings	6	(12,591)	(10,045)
Deferred consideration		(3,014)	-
Deferred income		(45)	(83)
Total non-current liabilities		(15,650)	(10,128)
Total liabilities		(38,993)	(33,016)
Net assets		29,837	30,218
Shareholders' equity:			
Ordinary shares		4,435	4,333
Share premium		1,150	124
Profit and loss account		20,513	18,455
Other reserves		3,739	7,306
Total shareholders' equity		29,837	30,218

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2009

	Note	H2 2009 £'000 unaudited	H2 2008 £'000 unaudited	2009 £'000 audited	2008 £'000 audited
Cash flows from operating activities:					
Cash inflow from operations	5	7,617	4,703	7,712	7,461
Cash inflow from operations before exceptional items		7,617	5,161	8,139	8,526
Exceptional items	3	-	(458)	(427)	(1,065)
Net interest paid		(540)	(1,050)	(1,099)	(1,505)
Net cash inflow from operating activities		7,077	3,653	6,613	5,956
Cash flows from investing activities:					
Acquisition of NanoGaN Limited		(205)	-	(205)	-
Development expenditure		(1,409)	(734)	(2,325)	(1,520)
Investment in other intangible fixed assets		(248)	(34)	(248)	(134)
Purchase of property, plant and equipment		(744)	(3,756)	(1,660)	(6,361)
Proceeds from sale of property, plant and equipment		-	179	-	179
Net cash used in investing activities		(2,606)	(4,345)	(4,438)	(7,836)
Cash flows from financing activities:					
Issues of ordinary share capital		356	101	596	208
Loans and leases received		3,022	(1,983)	2,778	1,755
Net cash generated from financing activities		3,378	(1,882)	3,374	1,963
Net increase/(decrease) in cash and bank overdrafts		7,849	(2,574)	5,549	83
Cash/(bank overdrafts) at 1 January				(928)	(1,011)
Exchange losses on cash and bank overdrafts				(388)	-
Cash/(bank overdrafts) at 31 December	6			4,233	(928)

NOTES TO THE RESULTS

1. Basis of preparation

These 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 2009.

The preliminary results were approved by the Board of Directors and the Audit Committee on 22 March 2010. These results do not constitute statutory accounts within the meaning of the Companies Act 2006. All figures are taken from the 2009 audited annual accounts unless denoted as 'unaudited'. Comparative figures in the results for the year ended 31 December 2008 have been taken from the 2008 audited annual accounts.

These results will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 24 March 2010. Copies will be available to members of the public upon application to the Finance Director at Pascal Close, Cardiff CF3 0LW.

2. Segmental analysis

The group considers its three key market areas of wireless, opto-electronics and electronics to be its primary reporting segments, based on the reports reviewed by the board of directors that are used to make strategic decisions.

Further detail on the nature of the segments is provided in the Products and Markets commentary.

Revenues by business segment :	2009	2008
	£'000	£'000
Wireless	41,598	48,490
Optoelectronics	9,843	10,169
Electronics	1,211	1,826
Total revenue	52,652	60,485

Operating profit/(loss) by business segment before exceptional items :		
Wireless	4,659	7,356
Optoelectronics	(942)	(1,999)
Electronics	(673)	(1,357)
Total operating profit before exceptional items	3,044	4,000

Operating profit/(loss) by business segment :		
Wireless	4,659	4,381
Optoelectronics	(942)	(2,645)
Electronics	(673)	(1,667)
Total operating profit	3,044	69

3. Exceptional items

	2009 £'000	2008 £'000
Exceptional charges comprise:		
Relocation costs	-	2,486
Group restructuring	-	1,445
	-	3,931

The relocation costs in 2008 of £2,486,000 related 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 related cash outflow in 2008 was £990,000.

The Group restructuring costs in 2008 of £1,445,000 related to the restructuring of the Group's activities and operations to reduce operating costs. This involved a 20% reduction in headcount in addition to a streamlining of certain manufacturing activities. This restructuring was completed by the end of 2008. As a result the Group incurred an exceptional charge of £1,445,000 in 2008, the majority of which was a non-cash charge relating to the write down of assets. The related cash outflow in 2008 was £75,000, with the majority of the exceptional cash outflow of £427,000 in 2009 relating to the settlement of liabilities created by this restructuring.

Of the exceptional costs incurred in 2008, £3,168,000 was charged to cost of sales in the income statement and £763,000 was charged to selling, general and administrative expenses. This allocation was determined by identifying to which classification of expenses each component of the exceptional charge most closely relates.

4. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potential ordinary shares. Share options are only considered to be dilutive if they are 'in the money', i.e. that they can result in the purchase of ordinary shares for less than the average mid market share price in the period (2009: 10.84p). The group incurred losses in the prior year and, as such, options and warrants that may be converted were considered anti dilutive, since they would reduce the loss per share.

	2009 £'000	2008 £'000
Basic and diluted profit/(loss) attributable to ordinary shareholders	2,058	(1,385)
	No	No
Weighted average number of ordinary shares	436,881,052	432,207,766
Dilutive share options	26,321,661	-
Adjusted weighted average number of ordinary shares	463,202,713	432,207,766
Pre-exceptional earnings per share	0.47p	0.59p
Earnings/(loss) per share	0.47p	(0.32p)
Diluted earnings/(loss) per share	0.44p	(0.32p)

5. Cash generated from operations

	2009 £'000	2008 £'000
Operating profit	3,044	69
Depreciation of tangible assets	3,372	3,076
Amortisation of intangible assets	737	447
(Gain)/loss on sale of tangible assets	(100)	6
Government grants released	(39)	(39)
Non cash exceptional costs – impairment of development costs	-	521
Non cash exceptional costs – other costs	-	2,345
Non-cash share based payment costs	898	884
Operating profit before changes in working capital	7,912	7,309
(Increase)/decrease in inventories	(340)	(1,426)
(Increase)/decrease in trade and other receivables	(2,457)	1,618
Increase/(decrease) in trade and other payables	2,597	(40)
Net cash inflow from operations	7,712	7,461

6. Analysis of net debt

	At 1 January 2009 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2009 £'000
Cash and cash equivalents	-	4,621	(388)	4,233
Bank overdraft	(928)	928	-	-
Loans due after one year	(9,961)	(5,879)	3,272	(12,568)
Loans due within one year	(7,098)	3,041	(2,462)	(6,519)
Finance leases due after one year	(84)	-	61	(23)
Finance leases due within one year	(64)	60	(50)	(54)
Total borrowings	(18,135)	(1,850)	821	(19,164)
Net debt	(18,135)	2,771	433	(14,931)

Cash and cash equivalents at 31 December 2009 comprised balances held in instant access bank accounts.