Company Registration No. 3745726

Deloitte & Touche

IQE PLC

Report and Financial Statements

31 December 2002

Deloitte & Touche
Cardiff

Deloitte & Touche

REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS

IQE PLC

Deloitte & Touche

FIVE YEAR FINANCIAL SUMMARY

	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000
Turnover	22,960	42,047	30,117	19,043	15,856
Operating (loss)/profit before goodwill and exceptional items	(81,230)	(3,467)	1,995	1,454	1,170
Exceptional items	(2,686)	(759)	-	(171)	-
Goodwill amortisation	(34,302)	(1,835)	(209)	-	-
Operating (loss)/profit	(118,218)	(6,061)	1,786	1,283	1,170
Net interest receivable/(payable)	(16)	211	1,208	(590)	(388)
(Loss)/profit on ordinary activities before taxation	(118,234)	(5,850)	2,994	693	782
Taxation	1,217	270	(1,184)	149	(230)
(Loss)/profit for the financial year	(117,017)	(5,580)	1,810	842	552
Earnings per ordinary share	(63.08)	(3.38p)	1.24p	0.63p	0.53p
Diluted earnings per ordinary share	(63.08)	(3.38p)	1.18p	0.59p	0.49p
Earnings before interest, taxation, depreciation, impairment and amortisation (EBITDA)	(19,537)	2,196	4,834	2,792	2,607
Employment of shareholders' funds:					
Tangible fixed assets	13,862	74,193	47,848	11,483	5,498
Goodwill	-	34,658	36,543	-	-
Investment in own shares	9	2	-	-	-
Net current assets	559	11,045	2,052	6,320	258
Other liabilities	(453)	(1,391)	(1,659)	(424)	(477)
Net cash/(borrowings)	7,959	19,105	32,813	3,571	(4,648)
Shareholders' funds	21,936	137,612	117,597	20,950	631
Free cash flow	(14,466)	(39,290)	(25,265)	(10,290)	1,554
Interest, tax and dividends	(83)	533	343	(872)	(599)
Net cash flow	(14,549)	(38,757)	(24,922)	(11,162)	955
Acquisitions, disposals, share issues and translation	3,267	25,049	54,164	19,381	184
Movement in net cash/(borrowings)	(11,282)	(13,708)	29,242	8,219	1,139
Key ratios:					
Operating (loss)/profit before goodwill amortisation and exceptional items as % of:					
Turnover	(353.8)%	(8.2)%	6.6%	6.7%	7.4%
Shareholders' funds* (average)	(130.01)%	(3.8)%	3.9%	11.9%	361.1%
Interest cover (times)	-	-	-	2.2	3.0
Net borrowings as % of shareholders' funds* excluding borrowings	-	-	-	-	88.0%

*excluding goodwill

IQE plc was established in April 1999 for the purpose of acquiring EPI Holdings Limited (and its subsidiaries IQE (Europe) Limited, formerly Epitaxial Products International Limited, and Epitaxial Products Inc) and IQE Inc Limited (formerly Quantum Epitaxial Designs Inc) in May 1999. The acquisitions were accounted for under merger accounting, whereby the financial information is disclosed as if the companies had always been part of the group.

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dr Godfrey Ainsworth (Non-Executive Chairman)
Dr Drew Nelson OBE (President and Chief Executive Officer)
Dr Mike Scott (Executive Director)
Martin Lamb (Executive Director)
Simon Gibson OBE (Non-Executive Director)

OFFICERS

Leslie Coventry (Company Secretary)

REGISTERED OFFICE

Cypress Drive
St Mellons
Cardiff
CF3 0EG

PRINCIPAL BANKERS

Barclays Bank plc

AUDITORS

Deloitte & Touche
Chartered Accountants
Cardiff

LEGAL ADVISERS

M&A Solicitors
Kenneth Pollard House
5-19 Cowbridge Road East
Cardiff
CF11 9AQ

REGISTRARS

Capita IRG
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34 Beckenham Road
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Kent
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INVESTOR RELATIONS

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DIRECTORS' AND OFFICERS' BIOGRAPHIES

Dr Godfrey H H Ainsworth *Age 47* Non-Executive Chairman, Chairman of the Audit Committee

Godfrey Ainsworth qualified as a Chartered Accountant and was employed by Coopers & Lybrand before becoming an audit partner and then corporate finance partner with Spicer & Oppenheim. Following a period as Finance Director of a human resource consulting group, in 1992 he founded Gambit Corporate Finance, a practice specialising in the provision of corporate finance services. He has held several Non-Executive Directorship appointments, including assignments for 3i plc and the Welsh Development Agency. He has provided advice to EPI since its inception and was appointed to the Board in 1997. Following the merger with QED, he was appointed to the Board of IQE plc and was appointed Chairman in February 2002. Dr Ainsworth is a Fellow of the Institute of Chartered Accountants in England and Wales and has a First Class BSc Honours degree and a PhD in plant sciences from University College, Cardiff.

Dr Andrew W Nelson OBE *Age 48* President and Chief Executive Officer

Drew Nelson joined BT Research Laboratories in 1981, leading the group responsible for the development of MOCVD technology for the manufacture of opto-electronic devices for optical fibre communications. He subsequently managed the technology transfer from BT to BT&D (now Agilent Optoelectronics Ipswich), a leading manufacturer of fibre optic communication devices. Together with Mike Scott, he founded EPI in 1988, becoming Managing Director in 1991 and Chairman and CEO in 1996. Following the merger with QED which formed IQE plc, Dr Nelson became Chairman and CEO of the new group and in February 2002 became President and CEO when he split his role and Dr Godfrey Ainsworth was appointed to the role of Chairman. Drew Nelson was educated at Sheffield University and holds a First Class BSc Honours degree in electronic engineering as well as a PhD in semiconductor technology.

Dr Michael D Scott *Age 45* Sales and Marketing Director

Mike Scott joined GEC Plessey Research (Caswell) in 1982 and led the development group working on MOCVD for InP based materials. After founding EPI with Drew Nelson in 1988, he became Technical Director and subsequently Sales and Marketing Director in 1996. After the merger, he was appointed Sales and Marketing Director of the combined group. Dr Scott gained a BSc in chemistry and physics, followed by a PhD in semiconductor technology at University of Wales, Aberystwyth.

Martin S M Lamb *Age 42* Managing Director, Wafer Technology Limited

Martin Lamb joined GEC Plessey Research (Caswell) in 1982 as a Research Scientist working on the characterisation of III-V semiconductor materials and devices. In 1985, he joined Wafer Technology Limited, becoming Quality Assurance Manager in 1986. In 1994, he was a key member of the management buy-out team which acquired the company from MCP Limited and was subsequently appointed Manufacturing Director. He became Managing Director in 2000. Following the acquisition of Wafer Technology Limited by IQE plc, he was appointed to the Board in November 2000. Mr Lamb graduated from the University of Durham in 1982 with a BSc in applied physics and electronics. He obtained an MBA from the University of Leicester in 1995.

Simon Gibson OBE *Age 45* Non-Executive Director, Chairman of the Remuneration Committee

Simon Gibson OBE joined the Board as a Non-Executive Director. He is currently President and CEO of Wesley Clover Limited, a venture capital fund set up by Sir Terry Matthews, specialising in early stage technology companies. Prior to joining Wesley Clover, Simon was co-founder, President and CEO of Ubiquity Software Corporation, a pioneer in the creation of SIP based telecommunications services for Global Service Providers. Mr Gibson has also been a senior member of the management teams at Newbridge Networks and Mitel, following an initial career at British Telecommunications (BT).

DIRECTORS' AND OFFICERS' BIOGRAPHIES (continued)

J Leslie Coventry *Age 57* Company Secretary

Leslie Coventry has acted as Accountant and Company Secretary for a number of companies including British Oxygen, British Shipbuilders, Hydro Aluminium and Seagram Distillers. He joined EPI in 1992 as Commercial Manager/Company Secretary, becoming Finance Director in 1998. After the merger with QED, he was appointed Company Secretary of IQE plc. Mr Coventry qualified as a Chartered Accountant with the Institute of Chartered Accountants in Scotland in 1967.

CHAIRMAN'S AND CEO'S REVIEW

Introduction

The IQE Group of companies is the principal global outsource supplier for advanced semiconductor wafers, covering both compound semiconductors and advanced silicon based wafer products. The group's objective since its formation in 1999 by the merger of EPI (a leading UK based optoelectronic wafer supplier), and QED (a leading US based wafer supplier to the wireless market) has been to establish itself as the foremost wafer supplier in its field. There can be little doubt that the company has achieved that goal in terms of its customer service, product range, wafer quality and technological and production capabilities.

The group has grown both organically and by acquisition and has been publicly quoted on the London Stock Exchange since May 2000. Consistent year on year sales and profit growth were achieved for several years (compound revenue growth of 27% from 1990-2000) until 2001 when the technology markets slumped and end use demand, particularly for communications related products, fell steeply.

It is well known that, since early 2001, the semiconductor industry has experienced the most severe downturn ever to occur within the sector with global industry revenues declining by over 50%. Some sectors have been even more severely affected. This has been particularly true of the telecoms-related optical components sector, where the "bubble" of the late nineties and early 2000 was driven by massive expansion of the fibre optic communications network on the back of Y2K, internet communications and readily available equity funding. This resulted in large levels of inventory building up throughout the supply chain with consequent drastically reduced sales and profitability resulting in wholesale restructuring of the fibre optic components industry. In 2000, over 60% of IQE's sales were to this sector, so the group was heavily impacted by this decline. Eventually, however, the inventory burn will run its course and more stable supply chain dynamics will resume, albeit with a reduced industry wafer manufacturing capacity which should ultimately benefit IQE as an outsource supplier. This scenario has already played out in other parts of the compound semiconductor industry, most notably in the wireless sector which underwent a similar inventory build-up in the 2000-2001 timeframe. These wireless component inventories are now largely exhausted and over the last nine months there has been a more stable return to end use pull through, consequent improvement in wafer demand and a clear move to increased levels of outsourcing.

As a result of the above, the group has experienced a significant reduction in revenues during the last year, sales falling from £42.0m in 2001 to £23.0m in 2002. With a high (but now significantly reduced) level of fixed cost, this has led to substantially increased losses during the year, and a reduction in gross cash, from £30.05m at the end of 2001 to £17.7m at the end of 2002.

The Board has responded strongly to the deterioration in trading and industry dynamics by aggressively cutting costs to bring the breakeven revenue level down to approximately £9m per quarter from £13m per quarter, restructuring the balance sheet to more accurately reflect the current environment, and initiating changes in the product range focus to address the more buoyant parts of the overall industry.

These initiatives will continue to impact favourably during 2003 and, as a result, the group will be strongly positioned when the industry and wider economy recover.

Group Strategy

The two fundamental drivers of IQE's business are the semiconductor industry's continuing need to develop higher performance materials to satisfy system demands of higher speed, better efficiency, and lower power consumption, and the growing opportunity to capitalise upon the increasing trend towards outsourcing in the semiconductors industry, particularly those activities which are non core and highly capital intensive. For most companies, epitaxy is such an activity. In support of the first of these business drivers, IQE has built up an enviable product range of advanced epitaxial materials and know-how, spanning almost the complete spectrum of wafer products and technologies. With products based on both compound semiconductor and silicon substrates, the group offers customers the simplicity and cost effectiveness of a one-stop solution for their wafer needs, from large volume production to advanced R&D products.

CHAIRMAN'S AND CEO'S REVIEW (continued)

With regard to outsourcing, as a result of the unclear industry outlook and need for significant cutbacks, IQE's business model of pure play semiconductor wafer outsourcing continues to gain strength, driven by three principal factors, namely:

- Corporate balance sheet repair which is resulting in very low levels of customer capital expenditure;
- A much stronger business focus by customers on their own core strengths; and
- The need for customers to adopt a much more flexible business model in order to withstand significant industry cycles in the future.

This is evidenced by the continual increase in the volume of wafers being produced by IQE over the last four quarters. At this stage, it is not evident in top line revenue growth as a result of lower selling prices driven by customer pricing power, as many competitors struggle to stay in business. Additionally, with over 80% of IQE sales being dollar denominated, the 9% decline in the value of the dollar vs sterling during the year adversely impacted on the revenue line.

In order to persuade the large in-house manufacturers to outsource the bulk of their wafer production, a key part of IQE's strategy has been to build up a world-class manufacturing capability. IQE invested heavily in expanding capacity during 2000-2001 and as a consequence several large manufacturers have been successfully engaged. However, the severity of the technology market downturn over the last 18-24 months has resulted in weak demand throughout the industry and, during 2002, the overall utilisation of IQE's total manufacturing capacity was only 15-20%.

Key Milestones

A number of key milestones were achieved during the year which are expected to help ensure the group's long-term future with a return to profitability and increasing shareholder value.

During 2002, the group reduced its workforce from a peak of 450 to 320. This was further reduced during Q1, 2003 to the current level of 270. Throughout these reductions, the group has nevertheless managed to retain the great majority of its core engineering and technological expertise. These reductions alone will reduce the annual wage bill from over £15m to close to £9m, a saving of almost £6m per annum. However, as a consequence of the reductions, several Board changes also occurred, with both Richard Clarke (CFO) and Scott Massie (President, IQE Inc) leaving the group in August 2002. Two further changes to the Board were announced in March 2003, with Tom Hierl (CTO) and Steve Byars (COO) stepping down from the Board, although their expertise will be available to the group during the next 12 months in a consulting capacity.

Tim Hawkes was appointed Acting CFO, and other responsibilities were shared throughout the senior management team and other Board members.

The capital expenditure programme to establish world-class manufacturing facilities within each of the group companies was also completed and equipment qualified to run production. In total, the manufacturing capacity of the group is now approximately £120m per annum, depending on precise product mix.

As a result, the capital expenditure requirement for 2003 is largely of a maintenance nature and should be less than £1m.

In addition, strong focus on several other cost-saving initiatives continued to impact in driving down the cost base of the group. In particular, improvements to the equipment maintenance programmes, in both time and cost saving, yield improvement programmes, reduced material usage initiatives, focus on only essential R&D and reduced SG&A costs will all continue to help reduce the break-even point of the group.

On the sales and marketing front, the group announced a series of strategic outsource partnerships during the year with AmberWave Systems Inc, Austriamicrosystems, CST and Intense Photonics. The group continued to focus on marketing the core strategic and commercial benefits of outsourcing, and combined with the significant manufacturing capacity now in place was successful in persuading a number of larger manufacturers to adopt much stronger outsourcing initiatives. These should be of major benefit as the market recovers.

CHAIRMAN'S AND CEO'S REVIEW (continued)

From an operational perspective, several produce milestones were achieved, including the shipment of the first strained silicon wafers (one of the key materials for the next generation of microprocessors), initial qualification of IQE Europe's InGaP HBT product for the wireless market, and the establishment of a new product for the higher power industrial laser market. During Q2, IQE Inc and the University of California in Santa Barbara (UCSB) announced a significant technological breakthrough when record breaking HBT devices operating at 450GHz were achieved using materials produced by IQE's US division. On the operational front, the Silicon Compounds division achieved accreditation to the international quality standard, ISO9001:2000 and IQE's Cardiff-based operations were awarded the prestigious British Safety Award for the third consecutive year.

During the year, IQE also reached a settlement with Rockwell Automation Inc in respect of a dispute relating to MOCVD process patents held by Rockwell Automation, which were part of a Licensing Agreement between the companies during the period October 1991 to January 2000.

Finally, in Q4 IQE's management decided to voluntarily de-list from NASDAQ Europe, primarily because the majority of the dealing in the company's shares is concentrated on the London Stock Exchange's TechMARK.

Results

IQE's revenues had been rising strongly until Q3 2001 and significantly increased capacity was installed based on customer, industry and financial analyst forecasts.

However, last year's extremely difficult trading environment resulted in the group's revenues being 45% lower than the previous full year at £23.0m (2001: £42.0m). At –294%, gross margins for the year were much lower than the previous year (2001: +23%) resulting from the heavy operational gearing of the group and substantially increased depreciation charges following the capacity expansion.

Total research and development costs for the year amounted to £3.2m (2001: £3.8m), which was equivalent to 14% of sales (2001: 9% of sales), with most of this being focussed on changing the product emphasis at IQE (Europe) to replace sales declines to the fibre optic market, and the continued efforts to bring a strained silicon product to market. Other R&D programmes with longer term returns were suspended until market conditions improve. Sustained efforts to control costs meant that SG&A expenses continued to reduce during the year, from £2.6m in Q1 to £2.4m in Q4, and are expected to further reduce by £2.3m by Q2 2003.

As a consequence of the foregoing, the operating loss for the year before goodwill amortisation, operating exceptional items and non-recurring costs was £21.0m, compared with a loss of £3.5m for 2001.

During the year, the Board wrote off all the goodwill (£34.3m) associated with the acquisition of Wafer Technology Limited in 2000, in light of the current and future industry circumstances. Nevertheless, Wafer Technology remains a core part of the group's strategy, allowing IQE to satisfy customers' overall wafer requirements for both substrates and epitaxial wafers, and ensure a key raw material for the other group companies.

In addition, a full asset review was undertaken in accordance with FRS 11 using external valuations for the vast majority of equipment, resulting in an asset impairment charge (accelerated depreciation) of £55.9m. Finally, stock provisions of £2.9m were made to reflect the reduced value of slow moving and obsolete stock.

In terms of its cash resources, the group incurred an operating cash outflow for the year of £9.0m (2001: outflow of £7.0m). Capital expenditure reduced substantially compared with 2001 to £3.8m (2001: £25.2m), bringing the net cash outflow for the year before financing to £12.8m (2001: £31.7m). No further significant capital expenditure is planned for 2003. At the end of 2002, the group had approximately £17.7m in gross cash, with debt of £10m (mainly in the form of equipment leases and a mortgage on the company's freehold premises), and tangible fixed assets of approximately £14.0m (following the fixed asset impairment).

The leases will continue to be paid down until they expire at the end of 2004 and the beginning of 2005.

CHAIRMAN'S AND CEO'S REVIEW (continued)

Subsequent to the year end, an outstanding loan with Copelco, relating to the US facility was paid in full, thereby releasing asset charges. Furthermore, a loan repayment of £160,000 was made ahead of schedule in return for the release of charges over fixed and floating assets at the Cardiff faculty. The only charges currently remaining are £2.3m over existing buildings and £2.5m in leases relating to the Silicon Compounds business, with the result that approximately £9.1m of the Group's assets remain unencumbered.

OPERATIONS REVIEW

IQE (Europe)
The main products of this division have been optoelectronic wafers for fibre optic communications manufactured using its installed base of 16 MOCDV production tools. However, following the dramatic reduction in demand within that part of the industry IQE (Europe) has had to diversify its product range. This includes Visible Laser Diodes (VLDs) for optical storage (CD&DVD), high power lasers for industrial and medical applications and high quality InGaP HBT parts for cellular handset power amplifiers (PAs), which are currently completing qualification by three key industry players. VLD products are also nearing final qualification with three leading Asian DVD chip manufacturers.

Other major opportunities for IQE (Europe) include VCSEL (Vertical Cavity Surface Emitting Lasers) used in short distance communications and LED (Light Emitting Diode) epi wafer foundry supply to major LED manufacturers.

IQE Inc

IQE Inc manufactures compound semiconductor epi wafers by MBE, principally for the RF wireless market. The group continues to see quantifiable and sustainable signs of improvement to trading conditions in the wireless marketplace, with more and more significant production orders being agreed with customers. In addition, new product development continues to be successful, particularly with InP HBTs which are being designed into a number of 'next generation' customer products.

IQE Inc currently has 16 MBE tools, of which 8 have multi 6" capability and, as the industry continues to move towards larger wafer sizes, this business is continuing to gain traction with the major component manufacturers. There are also three MOCVD tools installed at the IQE Inc facility.

Wafer Technology

This division manufactures the substrates upon which the epitaxial films are deposited using principally the Vertical Gradient Freeze method (VGF). Its products are used in a variety of applications including LEDs, sensors, imaging devices, lasers and electronic components. Wafer Technology continues to perform well on specialist wafer products, although their more mature business has also suffered as a consequence of the very difficult market conditions. Overall, Wafer Technology is outperforming its competitors in the marketplace, business has held up reasonably well and the company is already back to operating close to cash break-even.

IQE Silicon Compounds

IQE Silicon Compounds was established in 2000 to address the growing need within the silicon industry for advanced wafer products, and in particular new materials such as Strained Silicon and Strained Silicon on Insulator. These products are viewed as key to the next generation of microprocessors. Progress on the development of the products has been very good but market conditions are delaying their uptake at present. However, the division also provides other epitaxy services such as buried silicon and silicon germanium and more than 12 companies are now qualified for production. As the silicon industry improves, this should result in rapid uptake of capacity.

Overall, the current trading environment continues to be challenging, particularly in the opto-electronics sector. Continued weakness in this area is being offset to an extent by the improving environment in the wireless sector, the success of Wafer Technology in winning production orders, qualification of new products for IQE (Europe) and advanced wafer products at IQE Silicon Compounds.

Product Mix

In 2002, materials for optical telecommunications components represented approximately 24% of the group's overall business compared with 45% in 2001, whilst the electronic components sector for RF (wireless/mobile) increased from just over 30% to 50% during the same period. It is anticipated that the reliance on optical telecom components will reduce further during 2003 as part of the group's strategy to continue to extend its product portfolio, particularly into the consumer electronics and optical components markets.

OPERATIONS REVIEW (continued)

Management and Employees

As mentioned previously, the group undertook a strategic review of its operations during the year, which resulted in the overall headcount being reduced from 450 to 320 with a further reduction to 270 after the year end. Richard Clarke and Scott Massie stepped down as Chief Finance Officer and President of US operations respectively as part of this restructuring. Since the year end, Steve Byars and Tom Hierl have stepped down as Chief Operations Officer and Chief Technical Officer, although both will remain with the group on a consultancy basis for up to a year.

These moves will assist in reducing overall costs whilst allowing the Board structure to be streamlined.

It is our belief that the structure now in place retains the essential skill-base necessary to sustain current activities whilst enabling the business to grow significantly as the sector continues to recover.

Environmental

IQE plc is fully committed to protecting the environment in which we live and work. The group's environmental policy is published on the web at www.iqep.com and is intended to ensure that all divisions within the group operate in an environmentally responsible manner with the aim of continuously improving our performance, by reducing the environmental impact of our operations, and compliance with all relevant environmental legislation.

Trading Prospects

Despite a period of reduced revenues within the industry, IQE's sales revenues largely stabilised during 2002. The management believe this is a firm indication that the group is gaining market share within the sector.

The group has made significant cost savings whilst continuing to invest in new product development, the main focus being on products offering short to medium term paybacks.

The group sees continuing strengthening in the demand for its wireless related products at IQE Inc and improving outlooks at both the IQE Silicon Compounds and Wafer Technology divisions. However, IQE (Europe) has been particularly badly hit as the fibre optic components market continued to decline during 2002 and R&D budgets came under even more severe pressure. IQE (Europe) has been diversifying away from its traditional reliance on the fibre communications business in order to counter the fall in demand for fibre optic materials and this, together with improved trading in other divisions, means overall wafer volumes for the group are expected to improve throughout 2003. Despite these increased wafer shipments, however, revenues for the group for 2003 are expected to remain relatively flat as a consequence of the continuing weakness in the dollar sterling exchange rate and strong industry price reductions. First quarter revenues will also be affected by the usual seasonable weakness in demand.

With gross cash of £17.7m at 31 December 2002, the group remains confident that it is in a strong position within the outsourcing market. However, the protection of its cash position is paramount, so management focus is directed towards continued cost savings, working capital reductions and the continuous review of strategic relationships which could be of benefit to the group in addition to increasing the group's revenue stream.

In summary, 2002 has been a difficult year for the industry and for the group. Nevertheless, the strength and breadth of IQE's product portfolio and its well respected technical leadership have enabled the group to increase its market share under challenging conditions. Based upon this performance the Board remains confident of the validity of the outsource business model it has pursued since the company's formation. As the markets and economy recover, we believe IQE should be very well placed to benefit significantly.

Dr Godfrey H H Ainsworth	**Dr A W Nelson**
Non-Executive Chairman	President / CEO

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

The principal activity of the group during the year was the manufacture of advanced semiconductor materials.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The group's activities and future prospects are detailed in the Chairman's and CEO's Review and Operations Review which should be read as part of this report.

DIVIDENDS

The directors do not recommend the payment of a dividend (2001 - £nil).

DIRECTORS

The directors in office at 31 December 2002 and their beneficial interests in the company's issued ordinary share capital were as follows:

	Ordinary shares of 1p each 2002 No.	Ordinary shares of 1p each 2001 No.
Dr A W Nelson	26,057,970	26,057,970
Dr M D Scott	26,057,970	26,057,970
T L Hierl	16,489,230	16,489,230
M S M Lamb	3,675,583	3,341,250
Dr G H H Ainsworth	462,943	5,842
S Byars	5,000	5,000
S Gibson	-	-

S Gibson was appointed a non-executive director on 1 January 2002. Dr G H H Ainsworth was appointed Non-Executive Chairman on 5 February 2002.

G Bressner resigned as non-executive director on 17 May 2002.

R J G Clarke and S T Massie resigned as directors on 31 August 2002. S Byars and T L Hierl resigned on 7 March 2003.

As at 31 December 2002, Dr G H H Ainsworth held options for nil unissued 1p ordinary shares (2001 – 75,000 options) and S Byars held options for 250,000 unissued 1p ordinary shares (2001 – 250,000 options). No other director held share options at 31 December 2002. Further details are given in note 5 to the accounts.

The company is not aware of any substantial interests in the shares of the company as defined by the Listing Rules other than those disclosed for the directors.

RESEARCH AND DEVELOPMENT

The group incurred costs in respect of research and development during the year of £3,210,000 (2001 - £3,792,000). All research and development expenditure is charged to the profit and loss account in the period it is incurred, with the exception of the carry forward of costs in respect of new products. No research and development expenditure was carried forward at 31 December 2002.

PAYMENT TERMS

It was the group's policy during the year ended 31 December 2002 to follow the "Better Payment Practice Code". The group agrees payment terms in advance with individual suppliers and abides by the terms. The group's average number of days purchases outstanding in respect of trade creditors at 31 December 2002 was 55 days (2001 – 41 days).

DIRECTORS' REPORT (continued)

EMPLOYMENT POLICIES

It is the group's policy that there should be no discrimination in considering applications for employment including those from disabled persons. All employees, including the disabled, are given equal opportunities in terms of career development and promotion. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

The group remains committed to its policy of keeping employees fully informed about all matters which concern them. Formal communications are used to achieve this objective, including notice board announcements, e-mail and intranet. Employee involvement takes different forms in each subsidiary, ranging from formal committee meetings to less formal discussion groups.

Schemes have been implemented to ensure that employees are properly rewarded for performance and loyalty.

GOING CONCERN

The directors, after making enquiries, have deliberated on the future prospects of the group and have a reasonable expectation that it will have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these accounts.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Leslie Coventry
Company Secretary
24 April 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REMUNERATION COMMITTEE REPORT

INTRODUCTION

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the forthcoming Annual General Meeting of the company.

The Regulations require the auditors to report to the company's members on the 'auditable part' of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee consists of the non-executive directors, namely Dr G H H Ainsworth and S J Gibson, OBE who was appointed Chairman of the Committee on 17 May 2002 following the resignation of G Bressner as non-executive director and Chairman of the Remuneration Committee. The Committee complies with Schedule A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange, and is responsible for determining the Company's policy on compensation of executive directors and the basis of their service agreements with due regard to the interests of shareholders. It also approves the allocation of share options to employees. The Committee has access to and takes independent professional advice as appropriate. The Committee met four times during 2002 to review the performance of the executive directors and, within agreed terms of reference, set the scale and structure of their remuneration.

Remuneration policy

In establishing its remuneration policy, the Committee has given full consideration to Schedule B of the Best Practices Provisions annexed to the Listing Rules of the Financial Services Authority. The objective of the company's remuneration policy is that executive directors should receive remuneration which is appropriate to their position of responsibility, and which will attract, motivate and retain executives of the necessary calibre. The remuneration of the executive directors consists of annual salary, performance bonus, taxable benefits in kind and pension contributions.

There is an annual review at which the Committee approves the basic salary and profit sharing bonus scheme for each executive director. The Committee receives input from the Chief Executive regarding recommended packages for the executive directors. No changes were made in 2002 to the packages recommended to the Committee by the Chief Executive.

Basic salary

Basic salaries of executive directors were unchanged throughout 2002. M S M Lamb, Dr A W Nelson and Dr M D Scott agreed to sacrifice a proportion of their salaries during the year as part of the group's cost saving initiatives. As at 31 December 2002, M S M Lamb had sacrificed £15,000, Dr A W Nelson had sacrificed £16,250 and Dr M D Scott had sacrificed £11,250.

Performance bonus

Bonus payments are linked to executive directors achieving internal annual plan targets in respect of group profit before tax and amortisation. No bonuses were paid in respect of 2002 as plan targets were not achieved.

Taxable benefits in kind

Taxable benefits comprise fully expensed company cars, medical health insurance and allowances for domestic and foreign business travel. Dr A W Nelson receives a car allowance of £18,375/annum in lieu of a company car. The company reimburses fuel and maintenance costs in respect of his private car, and these are treated as taxable benefits in kind.

REMUNERATION COMMITTEE REPORT (continued)

Share incentive schemes

The company operates a number of share incentive schemes. The IQE plc Share Option Scheme, as adopted on 26 May 2000 and amended by shareholders at the company's Annual General Meeting on 17 May 2002, allows the company to grant options over up to 10% of the issued share capital and those options are subject to performance conditions. On 20 August 2002, the Remuneration Committee approved the cancellation of 2,129,840 share options where the market price was less than the option price at the date of cancellation and the options had no performance criteria for exercise. An equal number of new share options with performance criteria were issued as replacements with a price of £0.2450/option, the number of new options being determined by the Black Scholes valuation method. As at 31 December 2002, 9,529,831 share options have been granted under the IQE plc Share Option Scheme with exercise prices ranging from £0.0100/option to £5.8700/option.

The number and prices of share options at 31 December 2002 were as follows:

Option price	**No. of options £'000**
Share options of £0.0100/option	2,458,761
Share options of £0.0566/option	2,194,215
Share options of £0.0812/option ($0.1300/option)	1,290,354
Share options in excess of £0.0812/option	3,586,501
Total	**9,529,831**

The company also operates UK and US All Employee Share Ownership Plans whereby employees agree to contribute fixed amounts per month which are used to purchase shares in the company. The UK Plan commenced in November 2001 and the US Plan commenced in August 2002. The company issued 250,000 shares to an Employee Trust ("the UK Trust") at the commencement of the UK Plan, and a further 750,000 shares in 2002 to the UK Trust and a General Benefit Trust ("the Offshore Trust") from which it allocated matching shares to employees equivalent in number to the shares purchased on their behalf.

The company also awarded free shares to employees at the commencement of each Plan – 137,166 free shares were awarded to UK employees and 66,737 free shares were awarded to US employees. Ownership in the free shares passes to employees three years after date of award. Included in the awards were the following free shares to directors – S Byars 1,610 shares, T L Hierl 1,610 shares, M S M Lamb 1,440 shares, Dr A W Nelson 1,610 shares, Dr M D Scott 1,610 shares.

As at 31 December 2002, the UK and Offshore Trusts comprised 715,864 allocated shares and 222,318 unencumbered shares. The company has the ability to make option and share awards from the Offshore Trust.

Pension arrangements

The executive directors are members of the group pension schemes and their pension contributions are based on a percentage of basic annual salary. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. Except as noted below, there have been no changes in the terms of directors' pension entitlements during 2002, and there were no unfunded pension promises or similar arrangements for directors at 31 December 2002.

On 16 December 2002, the Remuneration Committee approved an arrangement whereby part of the remuneration of Dr A W Nelson and Dr M D Scott, including salary of £24,921 and car allowance of £18,375 which were accrued but not paid to Dr A W Nelson in 2001, be converted into special pension contributions which were paid to the pension scheme on 20 December 2002. The special contributions in respect of Dr A W Nelson and Dr M D Scott were £116,056 and £7,871 respectively.

REMUNERATION COMMITTEE REPORT (continued)

Executive directors' contracts

The executive directors have entered into service agreements with the company, which are terminable by either party on twelve month's notice. Each of the agreements contains post-termination restrictive covenants, which place limitations on solicitation of customers and employees of the group and on acting in competition with the business of the group.

During 2002, R J G Clarke resigned as executive director and the Remuneration Committee approved a payment to him of six month's salary in lieu of notice which has been charged to exceptional items in the accounts as part of the group's restructuring exercise. S T Massie also resigned as executive director during 2002 after giving the group twelve month's notice. The Remuneration Committee permitted him to take an executive appointment with a partial competitor and approved a variation to his share options whereby these became exercisable in full between 31 December 2002 and 31 December 2003, after which date all unexercised options would be cancelled. As at 31 December 2002, S T Massie held 1,258,300 options at prices ranging from $0.1300/option to $1.4100/option.

S Byars and T L Hierl both resigned as executive directors on 7 March 2003 and the Remuneration Committee approved a contractual arrangement whereby each will work as a consultant to the Group for a period of up to twelve months. No compensation was payable to either director for termination of their contracts of employment. The Remuneration Committee approved a variation to the share options granted to S Byars whereby these became exercisable in full between 7 March 2003 and 7 March 2004, after which date all unexercised options would be cancelled. As at 7 March 2003, S Byars held 250,000 options at a price of £2.1500/option.

Non-executive directors' contracts

The non-executive directors have entered into service agreements with the company, and these are terminable by either party on three month's notice. Non-executive directors have specific terms of engagement, and their fees are determined by the Board within the limits set by the Company's Articles of Association. Dr G H H Ainsworth, a non-executive director since 22 April 1999, was appointed Non-Executive Chairman on 5 February 2002 and was paid £42,437 plus out of pocket expenses of £3,275 for his services in 2002. S J Gibson was paid £17,500. Each was paid in the form of shares in the company based on the weighted average share price throughout the year. Dr G H H Ainsworth and S J Gibson were awarded 300,131 shares and 88,566 shares respectively, of which 197,945 shares and 88,566 shares respectively were awarded on 14 January 2003. The shares paid for the services of S J Gibson are held in the name of Wesley Clover Wales Limited, a company of which S J Gibson is a director. Included in the payment in shares to Dr Ainsworth was VAT on the invoices for his fees and expenses totalling £8,000. This VAT was recovered by the company. No fees were paid in 2002 to G Bressner, who resigned on 17 May 2002.

Under the terms of their engagement, the non-executive directors were entitled to receive share options in addition to their fees. In accordance with Best Practice Guidelines included in the Higgs Report, Dr G H H Ainsworth and S J Gibson both agreed to forego that entitlement, and Dr G H H Ainsworth agreed to the cancellation of 75,000 share options which had previously been granted to him. Therefore, as at 31 December 2002, neither of the non-executive directors had any share options in the company and it is not intended that share options will be issued to the non-executive directors in the future under the terms of their appointment, which have been changed accordingly.

AUDITED INFORMATION

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows	**2002 £'000**	**2001 £'000**
Basic salaries	608	685
Bonuses	-	-
Compensation for loss of office	60	-
Non-executives fees and reimbursed expenses	63	9
Sub total salaries and fees	**731**	**694**
Car allowance	5	18
Benefits in kind	69	53
Money purchase pension contributions	130	46
Total	**935**	**811**

REMUNERATION COMMITTEE REPORT (continued)

Directors' emoluments

The aggregate emoluments paid to each director during 2002 were as follows:

	Basic Salary 2002 £'000	Fees 2002 £'000	Bonus 2002 £'000	Car allowance 2002 £'000	Benefits 2002 £'000	Total remuneration 2002 £'000	Total remuneration 2003 est. £'000	Pension contributions 2002 £'000	Pension contributions 2003 est. £'000
Executive directors									
Dr A W Nelson	76	-	-	5	10	91	125	82	13
Dr M D Scott	72	-	-	-	20	92	87	15	9
T L Hierl	116	-	-	-	5	121	20	2	-
S T Massie	61	-	-	-	3	64	-	1	-
M S M Lamb	60	-	-	-	9	69	71	6	8
S Byars	141	-	-	-	15	156	25	10	3
R J G Clarke	142	-	-	-	7	149	-	14	-
Non-executive directors									
Dr G H H Ainsworth	-	46	-	-	-	46	35	-	-
G Bressner	-	-	-	-	-	-	-	-	-
S Gibson	-	17	-	-	-	17	18	-	-
	668	63	-	5	69	805	381	130	33

Dr A W Nelson, Dr M D Scott and M S M Lamb decided to forego salary payments of £16,250, £11,250 and £15,000 respectively during 2002. Dr A W Nelson and Dr M D Scott have agreed to forego 25% of their salary and M S M Lamb has agreed to forego 20% of his salary from 1 January 2003 in support of the group's cost cutting.

S T Massie and R J G Clarke resigned on 31 August 2002. Their emoluments are from 1 January 2002 to date of resignation.

Dr G H H Ainsworth and S J Gibson took all their remuneration during 2002 in the form of company shares calculated on a weighted average share price basis.

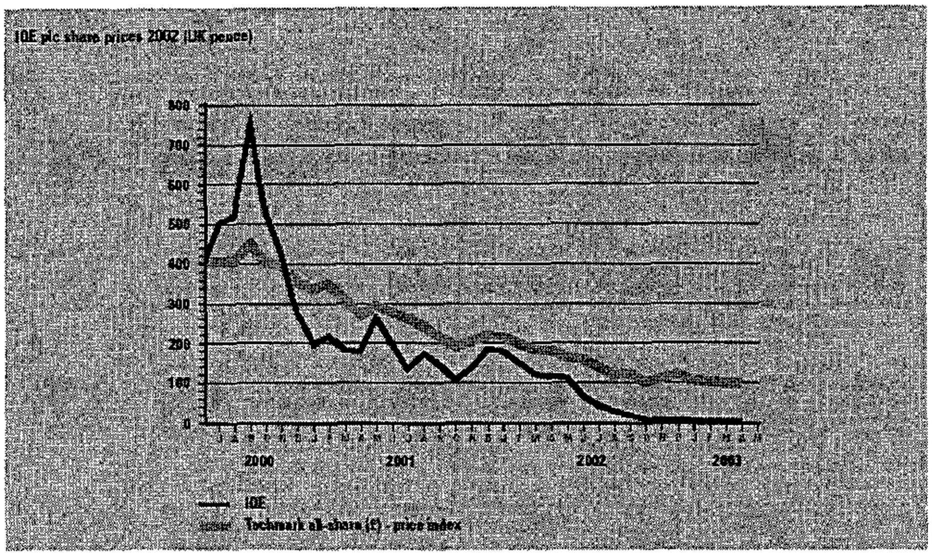
S J Gibson was appointed on 1 January 2002. His emoluments are from date of appointment to 31 December 2002.

The estimated remuneration and pensions for 2003 are unaudited.

The aggregate emoluments paid to each director during 2001 were as follows:

	Basic Salary 2001 £'000	Fees 2001 £'000	Bonus 2001 £'000	Car allowance 2001 £'000	Benefits 2001 £'000	Total remuneration 2001 £'000	Total remuneration 2000 £'000	Pension contributions 2001 £'000	Pension contributions 2000 £'000
Executive directors									
Dr A W Nelson	103	-	-	18	7	129	170	7	7
Dr M D Scott	73	-	-	-	12	85	113	7	7
T L Hierl	122	-	-	-	6	128	117	1	-
S T Massie	87	-	-	-	5	92	102	1	-
M S M Lamb	60	-	-	-	6	66	5	9	1
S Byars	141	-	-	-	10	151	-	12	-
R J G Clarke	98	-	-	-	7	105	-	9	-
Non-executive directors									
Dr G H H Ainsworth	-	9	-	-	-	9	10	-	-
G Bressner	-	-	-	-	-	-	-	-	-
S Gibson	-	-	-	-	-	-	-	-	-
	685	9	-	18	53	765	517	46	15

REMUNERATION COMMITTEE REPORT (continued)



R J G Clarke was appointed on 8 March 2001. His emoluments are from date of appointment to 31 December 2001.

The IQE share price has been compared with the Techmark all-share index as this was considered to be the most representative market group.

Directors' interests in ordinary shares of IQE plc

The directors' interests in ordinary shares of IQE plc at 31 December 2002 were as follows:

	As at 1 January 2002	As at 31 December 2002
Name of director		
Executive		
Dr A W Nelson	26,057,970	26,057,970
Dr M D Scott	26,057,970	26,057,970
T L Hierl	16,489,230	16,489,230
M S M Lamb	3,341,250	3,675,583
S Byars	5,000	5,000
Non-executive		
Dr G H H Ainsworth	5,842	462,943
S J Gibson	-	-
Total	**71,957,262**	**72,748,696**

The directors' interests in share options at 31 December 2002 were as follows:

Name of director	Date of grant	Exercise price	Term of option	No. of options
Executive				
S Byars	2 Jan 2001	£2.15	(a)	250,000

a) Options exercisable one third after one year, one third after two years and one third after three years with expiry dates of 2 January 2009, 2 January 2010 and 2 January 2011 respectively. Following S Byars' resignation on 7 March 2003, the Remuneration Committee approved a variation to the terms of these options whereby they became exercisable in full between 7 March 2003 and 7 March 2004.

The highest and lowest mid-market share prices in respect of the shares of IQE plc during 2002 were £1.9500/share and £0.0475/share respectively. As at 31 December 2002, the mid-market price closed at £0.06250/share.

Approval

This report was approved by the Board of Directors on 24 April 2003 and signed on its behalf by:
S J Gibson OBE, Remuneration Committee Chairman

CORPORATE GOVERNANCE REPORT

IQE is committed to ensuring high standards of corporate governance. This statement describes how the principles of corporate governance are applied to the group and the group's compliance with the provisions set out in Section 1 of the Combined Code.

The group complied with the provisions of this Code during the year ended 31 December 2002 with the following exceptions:

Provision A.1.6, Training: The company does not have a formal training programme for directors either on appointment or subsequently, although all directors are encouraged to obtain such training as they consider necessary at the expense of the company. This is considered to be appropriate given the size of the organisation.

Provision A.2.1, Chairman and CEO: The positions of Chairman and CEO were combined until 5 February 2002 as the Board considered this to be appropriate at that stage of its development. However, on 5 February 2002, the roles were split, with Dr G H H Ainsworth being appointed to the position of Non-Executive Chairman and Dr A W Nelson becoming President and CEO. Dr G H H Ainsworth is recognised as the senior non-executive director. The Board considers this to be appropriate in view of his length of service with the company.

Provision A.3.1, Board composition. The non-executive directors consisted of less than one third of the Board following the resignation of G Bressner on 17 May 2002. The Board has been looking to appoint a third non-executive director.

Provision D.3.1, Audit Committee composition. The Audit Committee consisted of less than three non-executive directors following the resignation of G Bressner on 17 May 2002. The Board has been looking to appoint a third non-executive director.

The Board of directors

The management of IQE plc is directed by the Board which is responsible for ensuring the development and implementation of the group's overall strategy.

Following the resignation of S Byars, R J G Clarke, T L Hierl and S T Massie, the Board now comprises the Non-Executive Chairman, the President and CEO, two executive directors and one non-executive director. In the opinion of the Board, the two non-executive directors, Dr G H H Ainsworth and S J Gibson, are independent of management and, notwithstanding note 5 to the accounts, free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Non-Executive Chairman, Dr G H H Ainsworth, is recognised as the senior independent non-executive director to whom concerns can be conveyed as required by the Code of Best Practice. Biographical details of the directors are set out in earlier pages. Under the Company's Articles of Association, each of the directors is required ordinarily to retire by rotation once every three years.

The Board held five regular meetings and several special meetings during the year. The Board has a formal schedule of matters referred to it for decision; these include the approval of annual, interim and quarterly results, the annual budget, acquisitions and disposals, major items of capital expenditure, share capital issues, governance issues and executive appointments. The Board is provided with appropriate strategic and financial information prior to each meeting together with monthly reports to enable it to monitor the performance of the group.

All the directors have direct access to the advice and the services of the Group Company Secretary who is responsible for ensuring that Board procedures are followed.

Board committees

The Board has delegated specific responsibilities to the following committees:

CORPORATE GOVERNANCE REPORT (continued)

Group Executive Committee

The Group Executive Committee consists of the executive directors under the chairmanship of Dr A W Nelson and is responsible for the development of strategy, annual budgets and operating plans linked to the management and control of the day-to-day operations of the group. The Executive Committee is also responsible for monitoring key research and development programmes and for ensuring that Board policies are carried out on a group-wide basis.

Audit Committee

The Audit Committee consists of the non-executive directors under the chairmanship of Dr G H H Ainsworth and meets at least three times a year, and more frequently if required. The Audit Committee has specific written terms of reference which deal with its authority and duties. The Committee receives and considers reports relating to the monitoring of the adequacy of the group's internal controls, the suitability of its accounting policies and financial reporting systems and the nature and scope of the audit. Although there is currently no internal audit function, the Audit Committee regularly reviews the need to implement one. The acting CFO and the external auditors attend, as necessary. The Audit Committee also holds separate meetings with the external auditors, as appropriate.

Remuneration Committee

The Committee consists of the non-executive directors under the chairmanship of S J Gibson and meets periodically as required. The Remuneration Committee has specific terms of reference which deal with its authority and duties. It is responsible for providing advice and recommendations to the Board on the remuneration and terms and conditions of service of the executive directors, including annual bonus entitlements.

The group's policy on directors' remuneration has been in line with the Code provisions throughout the year. Full details are given in the Report of the Remuneration Committee and in note 5 to the accounts.

The Board has not established a separate Nomination Committee as the Board considers itself to be small. The responsibility for nominations rests with the Remuneration Committee.

Internal control

The Board has overall responsibility for the group's system of internal control, the effectiveness of which has been reviewed during the year and reported on to the Board. The review has taken account of any material developments up to the date of signing of the Financial Statements.

The processes to identify and manage the key risks to the success of the group are an integral part of the internal control environment. Such processes, which are ongoing and are regularly reviewed and improved as necessary, include strategic planning, the appointment of senior managers, the regular monitoring of performance, control of capital expenditure and significant revenue investment and the setting of high standards for health, safety and environmental performance. These processes have been in place for the full financial year and up to the date of approval of the financial statements and are in accordance with Internal Control: Guidance for Directors on the Combined Code Published in September 1999.

The effectiveness of the control systems and procedures is monitored regularly through a combination of management self-assessment and external audit. The results are reported to, and considered by, the Audit Committee.

The system of internal control comprises those controls established in order to provide assurance that the assets of the group are safeguarded against unauthorised use or disposal and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. Any system of internal control can only provide reasonable, but not absolute assurance against material misstatement or loss, as it is designed to manage rather than to eliminate the risk of failing to achieve the business objectives of the group.

CORPORATE GOVERNANCE REPORT (continued)

The key procedures that the directors have established with a view to providing effective internal control are as follows:

a) a clearly defined organisational structure and limits of authority
b) corporate policies and procedures for financial reporting and control, project appraisal, human resources, quality control, health and safety, information security and corporate governance
c) the preparation of annual budgets and regular re-forecasts which require approval from both the group Executive Committee and the Board
d) the monitoring of performance against budget and forecasts and the reporting of any variances in a timely manner to the Board
e) regular review and self-assessment of the risks to which the group is exposed, taking steps to monitor and mitigate these wherever possible including, where appropriate, taking out insurance cover
f) The Audit Committee approves audit plans and, on behalf of the Board, receives reports on the group's accounting and financial reporting practices and its internal controls. It also receives reports from the external auditors as part of their normal audit work.

Going concern basis

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Shareholder relations

The President and CEO and the Acting CFO regularly meet with representatives of institutional shareholders to discuss their views and to ensure that the strategies and objectives of the group are well understood. Issues discussed with institutional shareholders include the group's performance and the impact of any major transactions. The Chairman has also met with shareholders during the year.

The Annual General Meeting allows individual shareholders to raise questions with the Board, although shareholder enquiries and questions are also addressed throughout the year. In accordance with the recommendation of the Combined Code, the company will advise shareholders attending the Annual General Meeting of the number of proxy votes lodged for each resolution, in the categories 'For' and 'Against', together with the numbers 'at the Chairman's discretion' and abstentions. These will be advised after each resolution has been dealt with on a show of hands.

All shareholders receive a copy of the annual report and financial statements and an interim report is issued at the half year. The company has a web site, which provides details of the group's facilities and products. The site includes a separate investor relations section on which quarterly financial data and other significant announcements are published. The web site address is shown on the back cover of the annual report.

CORPORATE GOVERNANCE REPORT (continued)

Audit and other professional fees

The group has employed the services of a number of professional advisers during the year. The nature of the services provided by those advisers and the amounts paid to them are as detailed below:

Audit and related services	SGA costs £'000	Exceptional costs £'000	Share premium £'000	Total 2002 £'000	Total 2001 £'000
Deloitte & Touche UK	194	-	-	194	241
Deloitte & Touche USA	47	-	-	47	-
Arthur Andersen USA	-	-	-	-	47
Total	241	-	-	241	288

Analysed as follows	SGA costs £'000	Exceptional costs £'000	Share premium £'000	Total 2002 £'000	Total 2001 £'000
Payable to Deloitte & Touche UK					
Group audit services	110	-	-	110	75
Group audit services prior year	30	-	-	30	-
Company audit services	4	-	-	4	3
Reporting accountants and other regulatory services	-	-	-	-	4
Tax services	40	-	-	40	88
Other services	10	-	-	10	71
Payable to overseas auditors	47	-	-	47	47
Total	241	-	-	241	288

Deloitte & Touche UK were appointed as the group's auditors and tax advisers in 1999. They provided UK and US audit and taxation services to the group in 2002 of £170,000 (2001 - £170,000). The Board is aware of the importance of maintaining the independence of its auditors and will not contract for additional services from them which would compromise their audit independence. Where additional services may be required, they will be subject to appropriate market testing. During 2001, Deloitte & Touche UK also charged fees of £71,000 in respect of services provided in relation to a placing and open offer as referred to below.

Deloitte & Touche USA were appointed as the group's US auditors and tax advisers in 2002 following the resignation of Arthur Andersen USA. They provided US audit and taxation services to the group in 2002 of £47,000 (2001 - £nil).

CORPORATE GOVERNANCE REPORT (continued)

Arthur Andersen USA served as auditors and tax advisers to IQE Inc from the incorporation of that company in 1989 until 2001, when they were replaced by Deloitte & Touche. They provided audit and tax services to IQE Inc in 2001 of £47,000.

Other professional services	SGA costs £'000	Exceptional costs £'000	Share premium £'000	Total 2002 £'000	Total 2001 £'000
Buchanan Ingersoll USA	-	1,024	-	1,024	-
Capita IRG plc UK	34	-	-	34	64
Evolution Beeson Gregory Limited UK	-	-	122	122	841
Gambit Corporate Finance UK	-	-	-	-	17
Inbucon MEIS UK	105	-	-	105	131
M and A Solicitors UK	43	-	-	43	791
Pepper Hamilton USA	86	58	-	144	908
Pricewaterhouse Coopers UK	-	-	-	-	50
Pricewaterhouse Coopers USA	-	74	-	74	17
Total	268	1,156	122	1,546	2,819

Buchanan Ingersoll USA provided legal services to the group in 2002 of £1,024,000 (2001 - £nil) in respect of the legal dispute between IQE (Europe) Limited and Rockwell.

Capita IRG plc UK were appointed in 1999 to act as the group's registrars. They provided services to the group in 2002 of £34,000 (2001 - £40,000) in respect of the management of the shareholder register of IQE plc. During 2001, they also charged fees of £24,000 in respect of a placing and open offer of shares on behalf of IQE plc.

Evolution Beeson Gregory Limited UK were appointed in 1999 to act as the group's sponsors, financial advisers and brokers. They provided sponsor services, financial advice and broking services to the group in 2002 of £122,000 (2001 - £841,000) in respect of a placing and open offer of shares on behalf of IQE plc.

The fees and expenses of the Chairman, Dr G H H Ainsworth, are paid to Gambit Corporate Finance of which Dr G H H Ainsworth is the Managing Partner. These fees and expenses are dealt with in the directors' remuneration report. Gambit Corporate Finance provided no other services to the group in 2002 (2001 - £17,000).

Inbucon MEIS UK were appointed in 2001 to set up and administer the group's UK and US employee share schemes. They provided share scheme management services to the group in 2002 of £105,000 (2001 - £131,000).

M and A Solicitors were appointed in 2001 to act as the group's solicitors on matters relating to English law. They provided legal services to the group in 2002 of £43,000 (2001 - £250,000) in respect of acquisitions, contract advice and joint ventures. During 2001, they also charged fees of £541,000 in respect of a placing and open offer of shares on behalf of IQE plc. A Whiteley, who is a partner in M and A Solicitors, is also a partner in Gambit Corporate Finance. Dr Ainsworth takes no part in instructing the services of M and A Solicitors or negotiation of their fees. Gambit Corporate Finance and M and A Solicitors are not related parties for the purposes of FRS 8

Pepper Hamilton USA have served as legal advisers to IQE Inc since the incorporation of that company in 1989 and were appointed in 1999 to act as the group's counsel on matters relating to US law. They provided legal services to the Group in 2002 of £86,000 (2001 - £95,000) in respect of acquisitions, contract advice and joint ventures. They also provided legal services to the group in 2002 of £58,000 (2001 - £795,000) in respect of the legal dispute between IQE (Europe) Limited and Rockwell. During 2001, they charged fees of £54,000 in respect of a placing and open offer of shares of behalf of IQE plc.

Pricewaterhouse Coopers UK provided financial services to the group in 2001 of £50,000 in respect of a successful application to the Welsh Assembly for grant assistance towards the cost of setting up IQE Silicon Compounds Limited.

Pricewaterhouse Coopers USA provided financial services to the group in 2002 of £74,000 (2001 - £17,000) in respect of the legal dispute between IQE (Europe) Limited and Rockwell.

Deloitte
& Touche

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IQE PLC

We have audited the financial statements of IQE plc for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the combined statement of movements in shareholders' funds and statement of movements on reserves and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is non consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and other information contained in the annual report for the above year as described in the contents section, including the unaudited part of the directors' remuneration report, and consider the implications for our report if we become aware of any apparent misstatements or mateiral inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IQE PLC (continued)

We planned and performed our audit of the company and the group so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

The financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 and of the loss of the group for the year then ended;

The financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Cardiff
24 April 2003

Deloitte & Touche

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
TURNOVER: continuing operations	3	22,960	42,047
Cost of sales	3	(90,579)	(32,381)
GROSS (loss)/profit	3	(67,619)	9,666
Operating expenses			
Distribution expenses	3	(1,591)	(2,708)
Administrative expenses:			
Research and development	3	(3,210)	(3,792)
Other administrative expenses (including goodwill and exceptional items)	3	(45,798)	(9,227)
		(50,599)	(15,727)
OPERATING LOSS BEFORE GOODWILL AND EXCEPTIONAL ADMINISTRATIVE EXPENSES		(81,230)	(3,467)
Other operating expenses			
Goodwill amortisation	3	(34,302)	(1,835)
Exceptional items	3, 11	(2,686)	(759)
OPERATING LOSS	4	(118,218)	(6,061)
Other interest receivable and similar income		869	1,009
Interest payable and similar charges	6	(885)	(798)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(118,234)	(5,850)
Tax on loss on ordinary activities	7	1,217	270
LOSS FOR THE FINANCIAL YEAR		(117,017)	(5,580)
Dividends	8	-	-
RETAINED LOSS FOR THE FINANCIAL YEAR		(117,017)	(5,580)
Earnings per ordinary share	10	(63.08p)	(3.38p)
Diluted earnings per ordinary share	10	(63.08p)	(3.38p)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2002

	2002 £'000	2002 £'000	2002 £'000	2002 £'000	2001 £'000
Loss for the financial year				(117,017)	(5,580)
Currency translation differences on foreign currency net investments				(1,567)	595
Total recognised gains and losses relating to the year				(118,584)	(4,985)

COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Issued share capital £'000	Share premium £'000	Shares to be issued £'000	Merger reserve £'000	Profit and loss account £'000	Exchange rate reserve £'000	Total 2002 £'000	Total 2001 £'000
THE GROUP								
Balance at 1 January 2002	1,824	136,662	938	(605)	(2,490)	1,283	137,612	117,597
Shares issued	47	3,666	(582)	-	-	-	3,131	27,374
Cost of shares issued	-	-	133	-	-	-	133	(2,324)
Deferred consideration on acquisition of subsidiary	-	-	(356)	-	-	-	(356)	(50)
Foreign exchange translation differences	-	-	-	-	-	(1,567)	(1,567)	595
Loss attributable to members of the group	-	-	-	-	(117,017)	-	(117,017)	(5,580)
Balance at 31 December 2002	1,871	140,328	133	(605)	(119,507)	(284)	21,936	137,612
THE COMPANY								
Balance at 1 January 2002	1,824	136,662	938	-	5,139	-	144,563	118,624
Shares issued	47	3,666	(582)	-	-	-	3,131	27,374
Cost of shares issued	-	-	133	-	-	-	133	(2,324)
Deferred consideration on acquisition of subsidiary	-	-	(356)	-	-	-	(356)	(50)
(Loss)/profit attributable to members of the company	-	-	-	-	(120,328)	-	(120,328)	939
Balance at 31 December 2002	1,871	140,328	133	-	(115,189)	-	27,143	144,563

CONSOLIDATED BALANCE SHEET
31 December 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Intangible assets	12	-	34,658
Tangible assets	13	13,862	74,193
Investment in own shares	14	9	2
		13,871	108,853
CURRENT ASSETS			
Stocks	15	4,988	12,277
Debtors	16	3,721	7,495
Cash at bank and in hand		17,715	30,533
		26,424	50,305
CREDITORS: amounts falling due within one year	17	(11,907)	(11,944)
NET CURRENT ASSETS		14,517	38,361
TOTAL ASSETS LESS CURRENT LIABILITIES		28,388	147,214
CREDITORS: amounts falling due after more than one year	18	(6,452)	(8,385)
PROVISIONS FOR LIABILITIES AND CHARGES	20	-	(1,217)
		21,936	137,612
CAPITAL AND RESERVES			
Called-up share capital	21	1,871	1,824
Merger reserve		(605)	(605)
Share premium		140,328	136,662
Shares to be issued		133	938
Profit and loss account		(119,507)	(2,490)
Exchange rate reserve		(284)	1,283
TOTAL EQUITY SHAREHOLDERS' FUNDS		21,936	137,612

These financial statements were approved by the Board of Directors on 24 April 2003
Signed on behalf of the Board of Directors

Dr G H H Ainsworth

Dr A W Nelson

PARENT COMPANY BALANCE SHEET
31 December 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Tangible fixed assets		-	124
Investments	14	7,560	75,112
		7,560	75,236
CURRENT ASSETS			
Debtors	16	4,325	42,049
Cash at bank and in hand		15,614	27,841
		19,939	69,890
CREDITORS: amounts falling due within one year	17	(356)	(563)
NET CURRENT ASSETS		19,583	69,327
TOTAL ASSETS LESS CURRENT LIABILITIES		27,143	144,563
CAPITAL AND RESERVES			
Called-up share capital	21	1,871	1,824
Share premium account		140,328	136,662
Shares to be issued		133	938
Profit and loss account		(115,189)	5,139
TOTAL EQUITY SHAREHOLDERS' FUNDS		27,143	144,563

These financial statements were approved by the Board of Directors on 24 April 2003
Signed on behalf of the Board of Directors

Dr G H H Ainsworth

Dr A W Nelson

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Net cash outflow from operating activities	22	(8,995)	(7,066)
Returns on investments and servicing of finance			
Interest received		869	1,009
Interest paid		(885)	(798)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(16)	211
Taxation			
UK and US corporation taxes		(67)	322
Capital expenditure			
Payments to acquire tangible fixed assets		(3,765)	(25,169)
Net cash outflow from capital expenditure		(3,765)	(25,169)
Net cash outflow before use of liquid resources and financing		(12,843)	(31,702)
Management of liquid resources		12,250	6,000
		593	(25,702)
Financing			
Issue of ordinary share capital		3,265	25,049
Repayment of loans		(662)	(463)
Repayment of finance leases		(2,578)	(1,863)
Net cash inflow from financing		25	22,723
Decrease in cash	23	(568)	(2,979)

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. **ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards under UK GAAP. The particular accounting policies adopted are described below.

Accounting convention

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

Basis of consolidation

The financial information consolidates the financial statements of the company and all of its subsidiaries.

The acquisition of EPI Holdings Limited and IQE Inc (formerly Quantum Epitaxial Designs Inc) by IQE plc, a new holding company established for that purpose, on 16 May 1999 has been accounted for under merger accounting, whereby the financial information is disclosed as if the companies had always been part of the group.

The acquisition of IQE (Europe) Limited (formerly Epitaxial Products International Limited) and its subsidiary Epitaxial Products Inc by EPI Holdings Limited, a new company established for that purpose, on 27 March 1996 and the acquisition of Wafer Technology International and its subsidiary Wafer Technology Limited on 22 November 2000 have been accounted for under acquisition accounting, whereby these companies became part of the group on the date of acquisition.

Turnover

Turnover represents amounts invoiced, exclusive of value added taxation.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use, as defined by Financial Reporting Standard Number 15.

Depreciation has been calculated so as to write down the cost of assets to their residual values over the following estimated useful economic lives:

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

No depreciation is provided on land or assets in the course of construction. Depreciation is also not provided on assets in periods of non-use where no physical or technological deterioration occurs and the remaining useful economic life of the asset is extended by the period of non-use.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. ACCOUNTING POLICIES (continued)

Goodwill

On the acquisition of a business, fair values are attributed to the group's share of the net tangible assets acquired. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill. The goodwill arising on the acquisition of Epitaxial Products International Limited and its subsidiary Epitaxial Products Inc, by EPI Holdings Limited was written off directly to reserves in the year of acquisition. Goodwill of £284,000 remains eliminated in the profit and loss reserve and will be charged to the profit and loss account on the subsequent disposal of IQE (Europe) Limited (formerly Epitaxial Products International Limited) and its subsidiary Epitaxial Products Inc. Following the issue of Financial Reporting Standard 10, goodwill arising in accounting periods ending on or after 23 December 1998 must be classified as an asset on the balance sheet and amortised over its useful life. The goodwill arising on the acquisition of Wafer Technology International Limited and its subsidiary Wafer Technology Limited has been capitalised and is being amortised over its useful life of 20 years subject to impairment reviews.

Stocks

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

Research and development

Research and development expenditure is fully written off when incurred except where contracts of sufficient value exist or are likely to exist in the foreseeable future in which case it is written off over a two-year period commencing with the start of the contracts to which the costs relate. During 2002, all research and development expenditure was fully written off.

Foreign currencies

Transactions in foreign currencies during the year are recorded in sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

The balance sheets of IQE Inc (formerly Quantum Epitaxial Design Inc) are translated into sterling at the closing rates of exchange for each year whilst the profit and loss accounts are translated into sterling at the average rates of exchange for the year. The resulting translation differences are taken direct to reserves.

Pension costs

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

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Government grants

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

Revenue grants for the reimbursement of costs charged to the profit and loss account are credited to the profit and loss account in the year in which the costs are incurred.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. **ACCOUNTING POLICIES (continued)**

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account. Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Financial instruments

The only derivative instruments utilised by the group are forward exchange contracts. The group does not enter into speculative derivative contracts. Forward exchange contracts are used for hedging purposes to alter the risk profile of an existing underlying exposure of the group in line with the group's risk management policies.

2. **SEGMENTAL ANALYSIS**

Turnover and operating loss are analysed by activity and geographical location as follows:

	Turnover 2002 £'000	Turnover 2001 £'000	Operating loss 2002 £'000	Operating loss 2001 £'000	Net assets 2002 £'000	Net assets 2001 £'000
III-V epitaxy	17,482	33,962	(65,824)	(3,053)	21,500	84,168
Silicon epitaxy	797	524	(15,331)	(766)	(2,993)	7,736
III-V materials/substrates	4,681	7,561	(2,761)	(407)	3,429	11,048
Goodwill	-	-	(34,302)	(1,835)	-	34,660
Total by activity	22,960	42,047	(118,218)	(6,061)	21,936	137,612
United Kingdom	11,707	28,623	(80,918)	(4,136)	6,588	90,888
United States	11,253	13,424	(37,300)	(1,925)	15,348	46,724
Total by geographical location	22,960	42,047	(118,218)	(6,061)	21,936	137,612

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

3. ANALYSES OF OPERATIONS

Recurring and non-recurring operations	2002 £'000			2001 £'000		
	Recurring £'000	Non-recurring £'000	Total £'000	Recurring £'000	Non-recurring £'000	Total £'000
Turnover	23,050	(90)	22,960	42,047	-	42,047
Cost of sales	(31,283)	(59,296)	(90,579)	(32,381)	-	(32,381)
Gross (loss)/profit	(8,233)	(59,386)	(67,619)	9,666	-	9,666
Operating expenses:						
Distribution expenses	(1,591)	-	(1,591)	(2,708)	-	(2,708)
Research and development	(3,210)	-	(3,210)	(3,792)	-	(3,792)
Other administrative expenses	(8,100)	(710)	(8,810)	(6,633)	-	(6,633)
Goodwill amortisation	(891)	(33,411)	(34,302)	(1,835)	-	(1,835)
Exceptional items	(2,686)	-	(2,686)	(759)	-	(759)
	(16,478)	(34,121)	(50,599)	(15,727)	-	(15,727)
Operating loss	(24,711)	(93,507)	(118,218)	(6,061)	-	(6,061)

Non-recurring costs comprise fixed asset impairment, the write down of the valuation of stocks, onerous lease provisions, and the write off of the goodwill arising on the acquisition of Wafer Technology Limited.

4. OPERATING LOSS

	2002 £'000	2001 £'000
Operating loss is after charging/(crediting)		
Depreciation of tangible fixed assets:		
Owned assets	49,819	5,733
Leased assets	14,560	690
Amortisation and impairment of goodwill	34,302	1,835
Auditors' remuneration	241	288
Operating lease rentals		
- Plant and machinery	588	597
- Other	536	474
Exchange (gains)/losses	(155)	(188)

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments

	Basic Salary 2002 £'000	Fees 2002 £'000	Bonus 2002 £'000	Car allowance 2002 £'000	Benefits 2002 £'000	Total remuneration 2002 £'000	Total remuneration 2001 £'000	Pension contributions 2002 £'000	Pension contributions 2001 £'000
Executive directors									
Dr AW Nelson	76	-	-	5	10	91	129	82	7
Dr MD Scott	72	-	-	-	20	92	85	15	7
TL Hierl (resigned 7 March 2003)	116	-	-	-	5	121	128	2	1
ST Massie (resigned 31 August 2002)	61	-	-	-	3	64	92	1	1
MSM Lamb	60	-	-	-	9	69	66	6	9
S Byars (resigned 7 March 2003)	141	-	-	-	15	156	151	10	12
RJG Clarke (resigned 31 August 2002)	142	-	-	-	7	149	105	14	9
Non-executive directors									
Dr GHH Ainsworth	-	46	-	-	-	46	9	-	-
G Bressner (resigned 17 May 2002)	-	-	-	-	-	-	-	-	-
S Gibson (appointed 1 January 2002)	-	17	-	-	-	17	-	-	-
	668	63	-	5	69	805	765	130	46

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Directors' share options

The following directors' share options were in existence at 31 December 2002:

	At 1 January 2002	Granted/ (waived)	At 31 December 2002	Exercise price	Date from which exercisable	Expiry date
S Byars	250,000	-	250,000	£2.15	02.01.02 to 02.01.04	02.01.11
RJG Clarke	250,000	(250,000)	-	£2.04	08.03.04	08.03.11
ST Massie	336,100	-	336,100	$0.13	24.10.98 to 24.10.01	31.12.03
ST Massie	672,200	-	672,200	$0.13	14.12.99 to 14.12.02	31.12.03
ST Massie	250,000	-	250,000	$1.41	05.11.02	31.12.03
Dr GHH Ainsworth	75,000	(75,000)	-	£4.13	16.05.03 to 16.05.10	16.05.10

The above options are granted under a share option scheme adopted on 26 May 2000.
No other director held share options at any point during the year.
No directors exercised any options during the year.

	2002 £'000	2001 £'000
Employee costs		
Wages and salaries	11,128	13,225
Social security costs	1,048	1,153
Other pension costs	755	654
	12,931	15,032

	2002 No.	2001 No.
The average number of employees, including directors, during the year was as follows:		
IQE plc	7	6
IQE (Europe) Limited	150	203
IQE Inc	142	147
IQE Silicon Compounds Limited	33	25
Wafer Technology Limited	52	67
	384	448

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Bank loans	4	2
Other loans	318	364
Finance lease interest	563	432
	885	798

7. TAXATION

	2002 £'000	2001 £'000
United Kingdom corporation tax at 30% (2001 – 30%)	-	-
Current charge for the period	-	-
United Kingdom deferred tax	(1,217)	(373)
Overseas corporation tax	-	85
Adjustments in respect of prior years provision:		
Overseas corporation tax	-	18
United Kingdom deferred tax	-	-
	(1,217)	(270)

Factors affecting current tax charge

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 30% (2001- 30%). The differences are explained below:

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	(118,234)	(5,850)
Tax at 30% thereon	35,470	1,755
Effects of:		
Capital allowances in excess of depreciation	(8,961)	394
Expenses not deductible for tax purposes	(286)	(66)
Movement in short term timing differences	19	(19)
Increase in tax losses	(4,565)	(835)
Other deferred tax movements	(148)	25
Group relief	-	17
Non taxable income	-	3
Late accounts adjustments	-	(98)
Goodwill amortisation	(10,291)	(550)
Overseas losses	(10,822)	(438)
Revaluation adjustment	(416)	(68)
Exchange gain on capitalised intra group loan	-	(120)
Current charge for the period	-	-

The group has UK tax losses of approximately £25,000,000 which are available for carry forward.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

8. DIVIDENDS

No dividend has been paid or proposed in 2002 (2001 - £nil).

9. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial year amounted to £120,328,000 (2001 - profit £939,000).

10. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings 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 dilutive potential ordinary shares.

	2002 £'000	2001 £'000
Basic and diluted earnings attributable to ordinary shareholders	(117,017)	(5,580)
	No.	No.
Weighted average number of ordinary shares	185,513,850	164,951,834
Diluted share options	6,768,478	4,366,065
Adjusted weighted average number of ordinary shares	192,282,328	169,317,899
Loss per share	(63.08p	(3.38p
Diluted loss per share	(63.08p	(3.38p

The group has incurred losses in the year and as such the only options that would be considered to be dilutive under FRS 14 would be out of the money options. Option holders are unlikely to exercise out of the money options and as such these are not considered dilutive. Therefore, no adjustment has been made to diluted earnings per share for out of the money share options.

11. EXCEPTIONAL ITEMS

Exceptional items comprise legal fees of £1,984,000 (2001- £759,000) and restructuring costs of £702,000 (2001- £nil).

Legal fees relate to a complaint by IQE (Europe) Limited against Rockwell regarding a declaratory judgement that IQE (Europe) Limited's processes did not infringe a Rockwell-owned MOCVD patent which expired on 11 January 2000 plus claims for damages related to this matter. Rockwell counter-claimed, alleging breaches of a licence agreement by IEQ (Europe) Limited. The two parties have now settled their dispute. Under the terms of the settlement, IQE plc has provided Rockwell with 300,000 shares in the company and IQE (Europe) Limited has paid Rockwell $500,000 in return for their agreement that neither IQE (Europe) Limited nor its customers had infringed the MOCVD patent. IQE (Europe) Limited will pay Rockwell a further $500,000 after 31 December 2002. The full cost of the settlement has been charged in these accounts.

Restructuring costs relate to the cost of staff redundancies at IQE (Europe) Limited, IQE Inc and Wafer Technology Limited as part of the group's cost reduction programme.

The group also incurred an exceptional cost of £93,507,000 (2001- £nil) in respect of non-recurring costs. These comprise fixed asset impairment of £55,931,000, stock provisions of £2,866,000, onerous lease provisions of £743,000, miscellaneous provisions of £556,000 and goodwill impairment of £33,411,000.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

12. INTANGIBLE FIXED ASSETS

The Group	Goodwill £'000
Cost	
At 1 January 2002	36,702
Adjustment due to deferred consideration (note 14)	(356)
At 31 December 2002	36,346
Accumulated amortisation and impairment	
At 1 January 2002	2,044
Charge for the year	891
Impairment provision	33,411
At 31 December 2002	36,346
Net book value	
At 31 December 2002	-
At 31 December 2001	34,658

The above goodwill relates to the acquisition of 100% of the issued share capital of Wafer Technology International Limited and Wafer Technology Limited that was acquired on 22 November 2000.

13. TANGIBLE FIXED ASSETS

The Group	Freehold land & buildings £'000	Short leasehold improve-ments £'000	Fixtures & fittings £'000	Plant & machinery £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2002	6,663	5,216	2,901	58,860	22,239	95,879
Additions	-	125	248	1,379	3,717	5,469
Transfers	(2,660)	5,073	1,321	22,222	(25,956)	-
Exchange difference	-	(309)	(107)	(3,841)	-	(4,257)
At 31 December 2002	4,003	10,105	4,363	78,620	-	97,091
Depreciation and impairment						
At 1 January 2002	498	714	1,344	19,130	-	21,686
Charge for the year	248	2,467	926	4,807	-	8,448
Impairment provision	1,089	7,110	1,309	46,423	-	55,931
Transfers	(78)	78	-	-	-	-
Exchange difference	-	(264)	(68)	(2,504)	-	(2,836)
At 31 December 2002	1,757	10,105	3,511	67,856	-	83,229
Net book value						
At 31 December 2002	2,246	-	852	10,764	-	13,862
At 31 December 2001	6,165	4,502	1,557	39,730	22,239	74,193

The fixed assets of IQE plc, IQE (Europe) Limited, IQE Inc and IQE Silicon Compounds Limited have been written down to their market values at 31 December 2002. The fixed assets of Wafer Technology Limited have been written down to their value in use based on a discount rate of 12%. The net book value of fixtures and fittings includes £nil (2001 - £45,000) and the net book value of plant and machinery includes £2,577,000 (2001 - £12,289,000) in respect of assets held under finance leases.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

13. TANGIBLE FIXED ASSETS (continued)

The Company	Fixtures & fittings £'000
Cost	
At 1 January 2002	138
Additions	2
At 31 December 2002	140
Depreciation and impairment	
At 1 January 2002	14
Charge for the year	28
Impairment provision	98
At 31 December 2002	140
Net book value	
At 31 December 2002	-
At 31 December 2001	124

14. INVESTMENTS HELD AS FIXED ASSETS

The Company	2002 £'000
Cost	
At 1 January 2002	75,112
Additions	7
At 31 December 2002	75,119
Impairment	
At 1 January 2002	-
Impairment provision	67,559
At 31 December 2002	67,559
Net book value	
At 31 December 2002	7,560
At 31 December 2001	75,112

The above is represented by investments in the following 100% owned subsidiaries:

	£'000
IQE Inc (formerly Quantum Epitaxial Designs Inc)	4,770
EPI Holdings Limited	-
Wafer Technology International Limited and Wafer Technology Limited	2,781
Shares in IQE plc held on behalf of Employee Benefit Trust	9
	7,560

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

14. INVESTMENTS HELD AS FIXED ASSETS (continued)

Investments in own shares

The IQE plc Employee Benefit Trust and the IQE plc General Benefit Trust were established to manage the IQE plc All Employee Share Ownership Plans (the Plans) for UK and US employees respectively. The Trustees of the Plan purchase the company's ordinary shares in the open market with financing provided by the employees. The Trusts contribute matching shares at no cost to the employees which are generated from new issues made by the company to the Trusts. At 31 December 2002, the company had issued 1,000,000 ordinary shares of 1p each to the Trusts to establish the Plans and allocated 715,864 matching shares.

The cost of shares awarded under the Plans is amortised evenly over the period from the original grant of the particular award to the time of vesting, which is normally a period of three years. Other administrative costs are charged to the profit and loss account as incurred.

The company has not paid a dividend in the year. The market value of IQE plc ordinary shares at 31 December 2002 was 6.25p per share.

Group and company	Shares held in trust No.	Nominal value £'000	Cost £'000	Amortisation £'000	Net book value £'000
At 1 January 2002	250,000	2	2	-	2
Issued to the Trust	750,000	8	8	(1)	7
At 31 December 2002	1,000,000	10	10	(1)	9

The IQE plc General Benefit Trust was also established to manage a Deferred Share Bonus Plan for UK and US employees by granting shares to employees in lieu of salary and bonus sacrifices. As at 31 December 2002, no shares had been awarded to employees under the Deferred Share Bonus Plan.

15. STOCKS

		2002		2001
	The Group £'000	The Company £'000	The Group £'000	The Company £'000
Raw materials and consumables	3,513	-	10,239	-
Work in progress and finished goods	1,475	-	2,038	-
	4,988	-	12,277	-

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

16. DEBTORS

	2002 The Group £'000	2002 The Company £'000	2001 The Group £'000	2001 The Company £'000
Trade debtors	2,736	-	6,138	-
Amounts owed by group undertakings	-	4,237	-	42,049
Other debtors and prepayments	985	88	1,357	-
Corporation tax	-	-	-	-
	3,721	4,325	7,495	42,049

Amounts owed by group undertakings are due after more than one year.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 The Group £'000	2002 The Company £'000	2001 The Group £'000	2001 The Company £'000
Other loans	1,035	-	674	-
Trade creditors	4,912	-	6,674	-
Amounts due under hire purchase and finance leases	2,722	-	2,543	-
Other taxation and social security	118	-	316	-
Corporation tax	-	-	65	-
Accruals and deferred income	3,120	356	1,672	563
	11,907	356	11,944	563

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 The Group £'000	2002 The Company £'000	2001 The Group £'000	2001 The Company £'000
Amounts due under hire purchase and finance leases	2,950	-	5,313	-
Other loans	3,050	-	2,898	-
Deferred income	452	-	174	-
	6,452	-	8,385	-

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

19. BORROWINGS

	The Group 2002 £'000	The Group 2001 £'000
Other loans		
Other loans are payable as follows:		
Within one year	1,035	674
Between one and two years	1,186	774
Between two and five years	874	827
Over five years	989	1,297
	4,084	3,572

	The Group 2002 £'000	The Group 2001 £'000
Hire purchase and finance lease repayments		
Hire purchase and finance lease repayments are payable as follows:		
Within one year	2,722	2,543
Between one and two years	2,374	2,617
Between two and five years	576	2,696
	5,672	7,856

Other loans comprise a loan from 3i of £1,045,000 (2001 - £1,140,000), a loan from the WDA of £1,326,753 (2001 - £1,446,792), a loan from Copelco of £479,150 (2001 - £965,698) and a loan from GCS of £1,233,653 (2001 - £nil).

Interest is charged on the 3i loan at a rate equal to the base rate and a margin of 2.5% per annum. The loan is secured by a fixed and floating charge over the assets of the group and is repayable by 15 annual instalments of £95,000, which commenced on 13 August 2000. Subsequent to the year end, a loan repayment of £160,000 was made ahead of schedule in return for the release of charges over fixed and floating assets at the Cardiff facility.

Interest is charged on the WDA loan at a maximum rate of 8.5% per annum. The loan is secured on the group's property and is repayable by 32 instalments, quarterly in arrears, commencing on 1 October 2001.

Interest is charged on the Copelco loan at 10.86% per annum. The loan was secured on equipment and was repayable by monthly instalments of $63,924 per month. The final instalment of $767,070 was repaid in January 2003.

There are no fixed repayment terms for the GCS loan.

Amounts due under hire purchase and finance leases are secured on the related assets.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

20. DEFERRED TAXATION

	At 1 January 2002 £'000	Credited to profit and loss account £'000	At 31 December 2002 £'000
UK deferred tax	1,217	(1,217)	-

The amounts of deferred taxation provided and unprovided in the accounts are:

	Provided 2002 £'000	Provided 2001 £'000	Unprovided 2002 £'000	Unprovided 2001 £'000
The Group				
Capital allowances in excess of depreciation	-	2,238	(4,875)	190
Other timing differences	-	(1,021)	(264)	(627)
Losses	-	-	(7,721)	-
	-	1,217	(12,860)	(437)

21. SHARE CAPITAL

	2002 Number of shares	2002 £'000	2001 Number of shares	2001 £'000
Authorised				
Ordinary shares of 1p each	300,000,000	3,000	300,000,000	3,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	187,069,878	1,871	182,383,507	1,824

The movement in ordinary shares during the year was:

	At 1 January 2002 £'000	Shares Issued No.	At 31 December 2002 £'000
Brought forward	182,383,507	-	182,383,507
Open offer and placing	-	1,972,837	1,972,837
Options exercised	-	1,561,348	1,561,348
Other	-	1,152,186	1,152,186
	182,383,507	4,686,371	187,069,878

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

21. SHARE CAPITAL (continued)

4,686,371 shares were issued during the year for the following considerations:

	No of shares	Consideration
Open offer and placing	1,972,837	155p
Employee share options	1,061,348	1p to 42p
Employee Benefit Trusts	750,000	1p
Wafer Technology acquisition	500,000	116p
Rockwell settlement	300,000	10p
Non-executive directors in lieu of fees	102,186	20p to 116p
Total	4,686,371	

Under the company's share option scheme adopted on 26 May 2000, employees held options at 31 December 2002 for 9,529,831 unissued 1p ordinary shares as follows:

Number of shares	Option price per shares £	Option period ending
698,924	0.01 – 0.09	31 December 2007
867,080	0.01 – 0.09	31 December 2008
1,383,451	0.01 – 0.94	31 December 2009
45,500	2.53 – 5.87	31 December 2010
297,000	0.93 – 2.33	31 December 2011
6,237,876	0.06 – 0.25	31 December 2012

The movements on share options during the year were as follows:

	Options No.
At 1 January 2002	8,387,295
Granted	6,373,440
Exercised	(1,061,348)
Cancelled	(4,169,556)
At 31 December 2002	9,529,831

During the previous year the company issued a share warrant. The warrant is capable of being exercised at any time during the period of five years from 10 December 2001. The warrant is for up to 4,428,620 new ordinary shares, ranking pari passu with existing ordinary shares, and may be exercised in whole or in part, although if exercised in part, it must be exercised in minimum tranches of 442,862 shares.

Upon the occurrence of certain adjustment events including any allotment or issue of equity shares or any sub-division, consolidation or redesignation of equity shares, the nominal value and subscription price of the warrant shares shall be adjusted in such manner as the auditors of the company certify to be necessary in order that the subscription rights after such adjustment will carry the same entitlement to participate in the profits and assets of the company as they did prior to such adjustments and the aggregate subscription price payable by the share warrant holder shall be as nearly as possible the same as it was prior to such adjustment.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

21. SHARE CAPITAL (continued)

The initial subscription price of the warrant shares is £1.55 per share. The applicable subscription price is capable of increase over the term of the warrant. Any adjustment to the prevailing subscription price will occur with effect from each anniversary of 10 December ("an anniversary date") and will depend upon the average mid market price for an ordinary share on the twenty trading days immediately preceding the relevant anniversary date ("the actual share price"). There will also be a maximum "cap" for the subscription price (the "maximum share price") equal to £1.55 increased on each anniversary date by a sum equal to five per cent of £1.55. If on any anniversary date the actual share price is below the prevailing subscription price there will be no increase to the prevailing subscription price. If the actual share price is higher than the prevailing subscription price, the subscription price will automatically increase to the lower of the actual share price and the maximum share price.

22. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Operating loss	(118,218)	(6,061)
Depreciation and impairment charges	64,379	6,423
Amortisation and impairment of goodwill	34,302	1,835
Movement in stocks	7,289	(4,392)
Movement in debtors	3,774	2,882
Movement in creditors	(512)	(7,842)
Government grant release	(141)	(504)
Government grant received	420	608
Exchange differences	(288)	(15)
Net cash outflow from operating activities	(8,995)	(7,066)

Included in the net cash outflow from operating activities is £2,374,000 (2001 - 759,000) in respect of exceptional items and non-recurring costs.

23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2002 £'000	2001 £'000
Movement in cash in the year	(568)	(2,979)
Loan repayments	662	463
Loans received	2,578	1,863
Cash outflow from decrease in liquid resources	(12,250)	(6,000)
Change in net funds resulting from cash flows	(9,578)	(6,653)
Inception of new finance leases/loans	(1,704)	(7,055)
Net movement for year	(11,282)	(13,708)
Net funds at 1 January 2002	19,105	32,813
Exchange differences	135	-
Net funds at 31 December 2002	7,958	19,105

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

24. ANALYSIS OF NET FUNDS

	At 1 January 2002 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2002 £'000
Cash in hand and at bank	3,033	(568)	-	2,465
Cash at bank accessible between one and seven days	27,500	(12,250)	-	15,250
Debt due after one year	(2,898)	-	(152)	(3,050)
Debt due within one year	(674)	662	(1,023)	(1,035)
Finance leases	(7,856)	2,578	(390)	(5,672)
	19,105	(9,578)	(1,565)	7,958

25. ADDITIONAL INFORMATION ON SUBSIDIARY UNDERTAKINGS

Name	Class of capital	Portion of shares held	Activity	Country of incorporation
IQE Inc USA	Preferred stock of £0.001	100%		
	Common stock of £0.001	100%	Holding company	USA
IQE Inc	Common stock of $0.001	100%	Manufacture of advanced semi-conductor materials	USA
EPI Holdings Limited	Ordinary shares of £1	100%	Holding company	UK
IQE (Europe) Limited	Ordinary shares of £1	100%*	Manufacture of advanced semi-conductor materials	UK
Epitaxial Products, Inc	Common stock of $10	100%	Dormant	USA
Wafer Technology International Limited	Ordinary shares of £1	100%	Holding company	UK
Wafer Technology Limited	Ordinary shares of £1	100%*	Manufacture of semi-conductor compounds and ultra high purity materials	UK
IQE Silicon Compounds Limited	Ordinary shares of £1	100%	Manufacture of silicon epitaxy	UK

The proportion of voting rights of subsidiaries held by the group is the same as the proportion of shares held.

* Indirect holdings

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

26. FINANCIAL INSTRUMENTS

The group's policies with regard to derivatives and financial instruments are set out in the Financial Review and the accounting policies.

The group does not trade in financial instruments.

The group enters into forward currency contracts with its bankers in order to fix exchange rate risks associated with currency shortfalls over a rolling twelve-month period in respect of Dollar and Yen inflows (and to a lesser extent other currencies). The Group had not entered into any forward contracts at 31 December 2002.

There were no material gains or losses brought forward or carried forward at the year end. Gains and losses are recognised in the year and are disclosed in Note 4.

The currency profile of the group's trade debtors and trade creditors is as follows:

	31 December 2002		31 December 2001	
	Trade debtors £'000	Trade creditors £'000	Trade debtors £'000	Trade creditors £'000
Sterling	358	1,181	54	1,691
US$	1,441	3,284	5,720	4,791
Yen	367	126	236	64
Other	570	321	128	128
Total	2,736	4,912	6,138	6,674

The interest rate profile of the group's financial assets and liabilities is as follows:

At 31 December 2002	Assets floating rate £'000	Assets fixed rate £'000	Liabilities floating rate £'000	Liabilities fixed rate £'000	Total £'000
Sterling	311	15,500	1,573	6,470	7,768
US$	1,364	-	-	1,713	(349)
Yen	105	-	-	-	105
Other	435	-	-	-	435
	2,215	15,500	1,573	8,183	7,959
Comprising:					
Cash at bank	2,215	15,500	-	-	17,715
Other loans	-	-	1,573	8,183	9,756
Total	2,215	15,500	1,573	8,183	7,959

26. FINANCIAL INSTRUMENTS (continued)

At 31 December 2001	Assets floating rate £'000	Assets fixed rate £'000	Liabilities floating rate £'000	Liabilities fixed rate £'000	Total £'000
Sterling	2,212	27,500	1,970	8,493	19,249
US$	716	-	-	966	(250)
Yen	100	-	-	-	100
Other	5	-	-	-	5
	3,033	27,500	1,970	9,459	19,104
Comprising:					
Cash at bank	3,033	27,500	-	-	30,533
Other loans	-	-	1,970	9,459	11,429
Total	3,033	27,500	1,970	9,459	19,104

The weighted average interest rate for the fixed rate liabilities is 7.25% (2001 – 9.61%) and the weighted average period for which interest rates are fixed is 2.7 (2001 – 3.5) years. Further details of the financial liabilities at 31 December 2002 are shown in notes 18 and 19.

There is no significant difference between the book value and the fair value of the group's financial assets and liabilities.

27. RELATED PARTY TRANSACTIONS

The group incurred professional fees and expenses during the year of £45,713 (2001 - £16,957) payable to Gambit Corporate Finance and £17,500 (2001 - £nil) payable to Wesley Clover Wales Limited. Dr Godfrey Ainsworth, who is a director of IQE plc, is a partner in Gambit Corporate Finance. Mr Simon Gibson, who is a director of IQE plc, is also a director of Wesley Clover Wales Limited. The payments in 2002 relate entirely to services provided by Dr Ainsworth and Mr Gibson in their capacity as non-executive directors.

28. OPERATING LEASE COMMITMENTS

The group was committed at 31 December 2002 to making the following payments during the next year in respect of operating leases:

	Land and buildings		Plant and machinery	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Annual commitments which expire:				
Within one year	-	4	440	2
In the second to fifth year	539	539	132	628
	539	543	572	630

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

29. CAPITAL COMMITMENTS

The group had the following capital commitments as at 31 December 2002:

	2002 £'000	2001 £'000
Authorised and contracted for	101	1,119