Company Registration No. 03170421

Deloitte
& Touche

REGISTRAR OF COMPANIES

EPI HOLDINGS LIMITED

Report and Financial Statements

31 December 2002

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Deloitte & Touche
Cardiff

Deloitte & Touche

REPORT AND FINANCIAL STATEMENTS 2002

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dr A W Nelson
Dr M D Scott

SECRETARY

J L Coventry

REGISTERED OFFICE

Cypress Drive
St Mellons
Cardiff
CF3 0EG

BANKERS

Barclays Bank Plc

SOLICITORS

M and A Solicitors

AUDITORS

Deloitte & Touche
Cardiff

Deloitte & Touche

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 company during the year was that of holding investments in subsidiary undertakings.

RESULTS AND DIVIDENDS

The results for the year are shown on page 5. No dividends were paid in the year (2001 – £nil).

DIRECTORS AND THEIR INTERESTS

The current directors are as shown on page 1. Neither director held any interests in the ordinary share capital of the company at the beginning or end of the year.

The directors' shareholdings in other group companies are stated in the directors' reports of those companies.

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. Deloitte & Touche have informed the directors that they are intending to transfer their business to a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the directors to use the company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

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

J L Coventry
Secretary

Date 03 July 2003.

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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 as at the end of the financial year and of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EPI HOLDINGS LIMITED

We have audited the financial statements of EPI Holdings Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 7. These financial statements have been prepared under the accounting policies set out therein.

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. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not 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 regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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. 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Cardiff

Date 4 July 2003

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PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £	2001 £
Exceptional fixed asset impairment provision	4	(5,995,001)	-
LOSS FOR THE FINANCIAL YEAR		(5,995,001)	-
Profit and loss account brought forward		3,924,750	3,924,750
Accumulated (loss)/profit carried forward		(2,070,251)	3,924,750

The results for the current and prior financial year include all recognised gains and losses in the year and are derived entirely from continuing activities.

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BALANCE SHEET
At 31 December 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Investments	4	1	5,995,002
CREDITORS: amounts falling due within one year	5	(2,040,250)	(2,040,250)
NET LIABILITIES/ASSETS		(2,040,249)	3,954,752
CAPITAL AND RESERVES			
Called up share capital	6	30,001	30,001
Profit and loss account		(2,070,251)	3,924,750
Capital redemption reserve		1	1
TOTAL SHAREHOLDERS' (DEFICIT)/FUNDS		(2,040,249)	3,954,752
Equity shareholders' funds		(2,040,250)	3,954,751
Non-equity shareholders' funds		1	1

These financial statements were approved by the Board of Directors on 03 July 2003.

Signed on behalf of the Board of Directors

Dr A W Nelson
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

The directors have taken advantage of the exemption from the requirement to prepare group accounts under Section 248(3) of the Companies Act 1985.

These financial statements present information about the company as an individual undertaking and not about its group.

Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment.

Related party transactions

In accordance with the exemption conferred by paragraph 17 of FRS 8 'Related Parties' the company has not disclosed transactions with other group companies.

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

No audit fees were borne by the company.

3. EMPLOYEES AND DIRECTORS

Directors' emoluments

The directors received no remuneration for their services to the company (2001 - £nil).

4. FIXED ASSET INVESTMENTS

	Subsidiary	
	2002	2001
	£	£
Cost at 1 January 2002	5,995,002	5,995,002
Impairment provision	(5,995,001)	-
Net book value at 31 December 2002	1	5,995,002

The investment in subsidiary represents a 100% interest in the ordinary share capital of IQE (Europe) Limited, a company incorporated in the United Kingdom whose principal activity is the manufacture and selling of epitaxial wafers. IQE (Europe) Limited made a loss after tax of £28,255,484 for the year ended 31 December 2002 (2001 - £1,292,640) and had total net liabilities of £27,766,113 at 31 December 2002 (2001 - net assets £489,371). As a result, the directors have made an impairment provision of £5,995,001 to reduce the value of the investment in IQE (Europe) Limited to a nominal £1.

5. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Amounts owed to group undertakings	2,040,250	2,040,250

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NOTES TO THE ACCOUNTS
Year ended 31 December 2002

6. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
99,998 ordinary shares of £1 each	99,998	99,998
1,000 "A" shares of £1 each	1,000	1,000
1 non-voting subscriber share of £1	1	1
1 redeemable deferred "golden" share of £1	1	1
	101,000	101,000
Issued, allotted and fully paid		
30,000 ordinary shares of £1 each	30,000	30,000
1 non-voting subscriber share of £1	1	1
	30,001	30,001

The rights attaching to the non-voting subscriber share are as follows:

On a winding up or other return of capital, the holder will be entitled to receive £1. The non-voting subscriber share shall carry no further right to participate in the profits or on a return of capital.

The holder shall not be entitled to receive notice of, or attend or vote at, any general meeting of EPI Holdings Limited.

7. ULTIMATE PARENT COMPANY

The ultimate parent company is IQE Plc, whose financial statements are available from the Company Secretary, Mr J L Coventry, Cypress Drive, St Mellons, Cardiff, CF3 0EG. IQE Plc is incorporated in England and Wales.