

22 DECEMBER 2008

PURE WAFER PLC (“Pure Wafer” or “the Group”)

Preliminary Results for year ended 30 June 2008

Pure Wafer plc, the provider of high quality silicon wafer reclaim services for many of the world’s leading semiconductor manufacturers as an integral part of their cost control programmes, today reports its financial results for the year to 30 June 2008.

Financial highlights

- Turnover £22.3m (2007: £22.3m)
- EBITDA £3.1m (2007: £5.8m)
- Operating profit £0.2m (2007: £3.5m)
- Pre-tax loss £0.8m (2007: £3.6m profit)
- Pre-tax loss £0.1m before restructuring costs and other losses (2007: £3.2m profit)
- Basic loss per share 23.1p (2007: earnings per share 10.5p)
- Net cash inflow from operating activities £1.7m (2007: £4.3m)

Operational highlights

- Swansea site operationally restructured
- Prescott site, increased 300mm capacity and is in qualification with the majority of US semi-conductor manufacturers
- Business now stabilised and, with spare capacity, ready to take advantage of the upswing in the semiconductor market when it occurs

Eurfyl ap Gwilym, Chairman of Pure Wafer said:

“The year to 30 June 2008, particularly the second half of the financial year, was one of the most challenging for Pure Wafer as the industry experienced a continued slowdown in the semiconductor market.

“The outlook for the semiconductor industry remains difficult as the global economy continues to face turbulence and uncertainties. The downturn in the industry, coupled with an over-supply of wafer reclaim capacity, has continued to put pressure on pricing and volumes during the current financial year, and we do not expect an early market-wide recovery in the industry.

“Pure Wafer has undertaken a full operational restructuring process to reflect the situation in the market; progress has been made to reduce the costs and the business is now more efficiently structured to reflect current demand. These actions, together with the 300mm capacity installed at both Swansea and Prescott, puts Pure Wafer in a good position to take advantage of the industry recovery going forward.

“Trading during the first months of the current financial year has been encouraging to date, although the outlook remains difficult, as the global economy continues to face turbulence and uncertainties. The current management forecasts for the remainder of the year indicate that the company needs to reschedule capital repayments of debt. The directors have instituted measures to preserve cash and continue to negotiate the rescheduling of our current debt obligations.”

ENQUIRIES

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CHAIRMAN'S REPORT

Introduction

The year to 30 June 2008, particularly the second half of the financial year, was one of the most challenging for Pure Wafer as the industry experienced a continued slowdown in the semiconductor market, cutbacks in capital spending, a steep decline in chip prices, a weak US dollar, record high oil prices and a tightening of the availability of credit. As these conditions deteriorated we saw increased competition, a marked reduction in wafer volume orders, intense pressure on our selling prices, increased freight costs and the adverse impact of a weak US Dollar.

A key fundamental of wafer reclaim as a cost-saving service to semiconductor manufacturers remains. Transition from 200mm to 300mm silicon wafers for the production of semiconductors going forward continues and bodes well for the future. However, it has become clear to us that the recovery in the industry is likely to take longer than first envisaged, a view shared by industry analysts.

Financial results

- Turnover £22.3m (2007: £22.3m)
- EBITDA £3.1m (2007: £5.8m)
- Operating profit £0.2m (2007: £3.5m)
- Pre-tax loss £0.8m (2007: £3.6m profit)
- Pre-tax loss £0.1m before restructuring costs and other losses (2007: £3.2m)
- Basic loss per share 23.1p (2007: earnings per share 10.5p)
- Net cash inflow from operating activities £1.7m (2007: £4.3m)

Whilst the results are disappointing following a satisfactory first half to the financial year, the board are encouraged by the actions of the management team during the second half to reduce the impact of the adverse market conditions.

Group funding

The current trading environment is challenging; however, to the date of approving the financial statements, the group has continued to meet its capital and interest repayments on all its debt. During the year, the group has recorded a pre-tax loss and has relied on waivers of loan covenant tests at 30 June 2008 and 30 September 2008 in order to stay in line with banking facility arrangements. As we announced in June 2008, the board continues to be in discussions with its principal lenders. The current management forecasts for the remainder of the year to 30 June 2009 indicate that the company needs to reschedule the capital repayments of debt, including the letter of credit for \$1.95m (being the final deferred consideration of the acquisition of the USA facility which falls due in February 2009), and may also need to obtain waivers of future covenant tests. The directors have instituted measures to preserve cash and continue to negotiate the rescheduling of our current debt obligations.

Preliminary approach and strategic options

The board has received a preliminary indicative approach to acquire Pure Wafer plc. Whilst negotiations are in progress, there can be no certainty that an offer will be made.

The directors are also pursuing alternative strategic options and sources of finance in the event that neither the offer for the business, nor a restructuring of existing borrowing facilities, can be arranged. No commitment has been secured to date and we will update shareholders when it is appropriate to do so.

Management

In November 2007, we announced that Keith Baker would be stepping down as Group Chief Executive Officer to take up his role as Group Chief Operating Officer to focus on the day-to-day running of the Swansea and Arizona sites. Peter Harrington, a co-founder of the business and formerly Strategic Developments Director, replaced Keith as Group Chief Executive Officer.

We have further strengthened our Board during the period with the addition of Stephen Young as Interim Group Finance Officer in April 2008, replacing James Dearing; he is a chartered management accountant (CIMA) and an experienced public company Finance Director, whose previous position was with British Biocell International (formerly BBI Holdings plc).

Following the period-end in July 2008, we announced that Giles Clarke would be stepping down from his position of Non Executive Chairman to Deputy Chairman; Eurfyl ap Gwilym was appointed as Non-Executive Chairman in his place. Eurfyl has served on the Pure Wafer Board since its IPO in December 2004 in the roles of Non-Executive Director, Chairman of the remuneration committee and Deputy Chairman of the board.

In October 2008 we announced the appointment of Stephen Boyd to the Board as a Non-Executive Director, effective from 1 October 2008. Stephen, aged 58, a chemical engineer by training, having gained a 1st class honours degree in chemical engineering at Imperial College, London, has worked in a number of manufacturing industries including five years as Group Chief Executive of Capital Industries plc. Stephen currently sits on a number of boards of both public and private companies, mainly in the technology sector, and is currently Chairman of Pittards plc.

I would like to thank the entire team for their support and effort during the challenging year.

Outlook

Trading for the first half of the 2009 financial year has been encouraging to date, although the outlook for the semiconductor industry remains difficult as the global economy continues to face turbulence and uncertainties. The downturn in the industry, coupled with an over-supply of wafer reclaim capacity, has continued to put pressure on pricing and volumes during the current financial year and we do not expect an early market-wide recovery in the industry.

Pure Wafer has undertaken a full operational restructuring process to reflect the situation in the market; progress has been made to reduce costs and the business is now more efficiently structured to reflect current demand. These actions, together with the 300mm capacity installed at both our facilities in the UK and the USA, put Pure Wafer in a good position to take advantage of the industry recovery going forward.

The US Dollar has significantly strengthened against sterling since 30 June 2008 and, should this remain, will have a positive impact on revenue and cash flow going forward.

Eurfyl ap Gwilym
CHAIRMAN
19 December 2008

CHIEF EXECUTIVE'S REPORT

Highlights:

- UK site in Swansea has been operationally restructured
- USA operation in Prescott, Arizona, has increased 300mm capacity and is in process of obtaining qualification to act as a supplier to the majority of US semiconductor manufacturers
- The US Dollar remained weak against Sterling during the period; however, following period-end, Sterling has weakened against the US Dollar
- Business now stabilised and, with spare capacity, is ready to take advantage of the upswing in the semiconductor market when it occurs

Operational review

The volumes for 200mm wafer reclaim for the full year to 30 June 2008 were up by 51% when compared with the prior year; this increase reflects the first set of results which include a full year performance of the Prescott, Arizona, acquisition. 300mm wafer reclaim for the year showed a slight decrease in volumes of 5% compared with the prior year, with all of this decrease experienced in the second half following stable volumes in the first half of the year.

The slowdown in the industry and the increased competition from new Taiwanese competitors resulted in significant pressure on selling prices. Therefore, during the second half of the year, we undertook a full operational restructuring process during which we have driven efficiencies and realised cost savings across the business. These actions, together with the 300mm capacity installed at both Swansea and Prescott, put Pure Wafer in a good position to take advantage of the industry recovery going forward.

Prescott site, Arizona, USA

It has been a busy time for the site in Prescott, Arizona. The development of the site to install 300mm wafer reclaim capacity and the transfer of the 300mm technology from our Swansea site were concluded early in the year, both on time and within budget. The qualification of the first 300mm customer was completed and the first revenue-bearing 300mm wafers were achieved in October 2007, just eight months after the acquisition.

The site now has a 300mm line with an approximate capacity of 30,000 wafers per month and is in a position to take advantage of the significant US market.

During the period, the site engaged with nearly every North American semiconductor manufacturer and is currently qualified or in the qualification process with all of them. The ramp-up of volume sales continued during the period and the business is well placed to build upon this success. The Prescott site remains cash positive and profitable at an EBITDA level and the US remains a key market for us.

Swansea site, UK

The Swansea site undertook a significant operational restructuring process during the period, aimed at reducing the cost per wafer to enhance the competitiveness of our product without reducing quality. This process has been successful and we managed to achieve significant cost savings during the period, whilst maintaining our position at the leading edge of our industry.

Both 300mm and 200mm volumes remained relatively stable during the period, with a small decrease in volumes seen during the second half as the prolonged slowdown of the industry took hold.

Market and new products

We continue to explore opportunities outside of wafer reclaim to enhance our portfolio of products, although we will only do so in areas where we have certainty of the end market and where we will not incur significant research and development costs. We are confident that we can deliver new product developments in areas of global growth, compatible with our existing core skills and world-class manufacturing equipment and facilities.

Peter Harrington
GROUP CHIEF EXECUTIVE
19 December 2008

FINANCIAL REVIEW

The 2008 annual report is the first delivered by the group under IFRS, therefore the prior year statement figures to 30 June 2007 have been restated accordingly. Comments on the group's key performance indicators are presented below.

Revenue

Revenue for the period was £22.3m, a decrease of 0.4% on last year (2007: £22.3m).

Volumes

The volume of 300mm equivalent wafers at 1,028k (2007: 898k) was 14% up on the prior year. These figures include full year (2007: 4½ months) volumes from the business acquired in the USA. The 300mm equivalent volume is used as a constant measure to convert 100mm, 125mm, 150mm and 200mm wafer sizes to the same surface area of that of a 300mm wafer; volumes in the US are predominantly 200mm and below.

Gross profit

Gross profit at £6.2m (2007: £8.9m), a reduction of 30%, was impacted by the reduction in average 300mm selling prices in the marketplace, which fell more quickly than management envisaged. The gross profit margin reduced accordingly to 28% (2007: 40%).

Operating profit

The operating profit of £0.2m (2007: £3.5m) was achieved after incurring £0.4m (2007: £nil) of restructuring costs and a cost of £0.2m in relation to exiting an existing customer agreement, the latter cost being included in administration costs.

In addition, the depreciation and amortisation charge included in the operating profit was £2.9m (2007: £2.4m); after taking this into account, earnings before interest, tax, depreciation and amortisation (EBITDA) was £3.1m (2007: £5.8m).

Administrative expenses

Administrative expenses of £5.7m (2007: £5.5m) for the group remained broadly constant; however, this included a full year of cost from the acquisition of the Prescott, Arizona, facility of £1.4m (2007: £0.7 m for 4½ months).

(Loss)/profit before tax

The loss before tax was £0.8m (2007: £3.6m profit).

Despite the challenges arising from the increase in customer specifications as the requirement for smaller and lower numbers of particles per wafer continues to progress, the group has managed to continue to reduce the cost per 300mm equivalent wafer. We are continuing our focus on cost reduction and are pursuing production cost per wafer savings across both manufacturing sites.

Foreign exchange

As over 95% of group revenue is in US Dollars, revenue and margins are significantly impacted by the movement in this currency.

The table below shows, year-on-year, the average rate achieved by the group after taking into account the impact of hedging instruments.

	Year ended 30 June 2008	Year ended 30 June 2007
Opening rate £1 = US\$	2.01	1.84
Average rate achieved (after hedging) £1 = US\$	2.01	1.91
Closing rate £1 = US\$	1.98	2.01

We continue to convert as much of the cost base as possible to US Dollars in order to provide a natural hedge against the US Dollar revenue streams.

Cash flow and capital expenditure

The group continues to be cash generative on an operating level, with a net cash inflow from operating activities of £1.7m (2007: £4.3m).

However, the financing structure of the group and the current schedule of debt repayment have resulted in a reduction of cash of £2.0m for the year, from £3.0m to £1.0m. As at 30 June 2008, £3.9m of interest bearing loans were due for repayment within one year and the final tranche of deferred consideration for the US acquisition of £0.9m (or US\$1.95m) is due for repayment in February 2009.

During the period, capital equipment with the value of £5.0m was acquired, with £3.3m of this expenditure at the US site in relation to completion of the 300mm line.

Taxation

There is no current tax charge across the group. Due to the losses incurred during the year, the Board has taken the prudent decision to remove the deferred tax asset of £5.3m from the balance sheet, as it is not expected to be utilised within the foreseeable future. This generates a non cash deferred tax charge for the year of £5.3m.

Deferred consideration

The business in Prescott, Arizona, was purchased for US\$11.2m, comprising a payment of US\$7.5m on completion in February 2007, US\$1.75m after 12 months in February 2008, and a further US\$1.95m interest-free deferred consideration instalment falling due in February 2009.

The initial purchase payment of US\$7.50m was funded through a four-year variable interest rate loan from Royal Bank of Scotland ("RBS") that was fixed through an interest rate swap at the time of drawdown to a rate of 6.9% per annum. The US\$1.75m deferred consideration was also funded through a four-year variable interest rate loan from RBS that was also fixed to 4.8% through an interest rate swap at the draw down in February 2008. The final deferred consideration payment is not contingent and, accordingly, is backed by a letter of credit from RBS. The deferred consideration payment has been discounted to present value and is reflected in the accounts as a financial liability within net funds. As the amount has been discounted, an imputed non-cash interest charge is levied through the income statement each period until the deferred consideration is paid.

EPS and dividend

Basic loss per share for the period was 23.1p (2007 – 10.5p earnings per share), which includes the effect of the provision against the UK deferred tax asset. Removing the impact of tax, the adjusted loss per share is 3.0p (2007 – 13.6p earnings per share).

Due to the current economic climate, the cash constraints faced by the group moving forward and the lack of available distributable reserves the Board is not able to recommend the payment of a dividend for this financial year.

STEPHEN YOUNG
Interim Group Finance Officer
19 December 2008

CONSOLIDATED INCOME STATEMENT
Year ended 30 June 2008

	Note	2008 £'000	2007 £'000
Revenue		22,268	22,348
Cost of sales		(16,088)	(13,431)
Gross profit		<u>6,180</u>	<u>8,917</u>
Depreciation and amortisation		(2,932)	(2,387)
Share based payment credit / (charge)		426	(379)
Other administrative expenses		(3,157)	(2,690)
Total administrative expenses		<u>(5,663)</u>	<u>(5,456)</u>
Restructuring costs		(355)	-
Earnings before interest, tax, depreciation & amortisation		3,094	5,848
Depreciation and amortisation		(2,932)	(2,387)
OPERATING PROFIT		162	3,461
Investment revenue		182	149
Finance costs		(777)	(427)
Other (losses)/gains		(366)	412
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(799)</u>	<u>3,595</u>
Tax on (loss)/profit on ordinary activities	4	(5,331)	(810)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u>(6,130)</u>	<u>2,785</u>
(Loss)/earnings per share			
Basic	5	<u>(23.1)p</u>	<u>10.5p</u>
Diluted		<u>(23.1)p</u>	<u>10.3p</u>

All activities derive from continuing operations

STATEMENT OF CHANGES IN EQUITY
Year ended 30 June 2008

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Exchange translation reserve £'000	Total equity £'000
Balance at 1 July 2006 – as restated	530	12,644	30,425	(18,072)	-	25,527
Net loss on translation of subsidiaries with foreign functional currency	-	-	-	-	(1,774)	(1,774)
Profit for the financial year	-	-	-	2,785	-	2,785
New shares issued	2	139	-	-	-	141
Equity-settled share-based payments	-	-	-	300	-	300
Balance at 30 June 2007	<u>532</u>	<u>12,783</u>	<u>30,425</u>	<u>(14,987)</u>	<u>(1,774)</u>	<u>26,979</u>
Net gain on translation of subsidiaries with foreign functional currency	-	-	-	-	140	140
Loss for the financial year	-	-	-	(6,130)	-	(6,130)
Equity-settled share-based payments	-	-	-	(386)	-	(386)
Balance at 30 June 2008	<u><u>532</u></u>	<u><u>12,783</u></u>	<u><u>30,425</u></u>	<u><u>(21,503)</u></u>	<u><u>(1,634)</u></u>	<u><u>20,603</u></u>

CONSOLIDATED BALANCE SHEET
30 June 2008

	Note	2008 £'000	2007 £'000
NON-CURRENT ASSETS			
Goodwill		3,348	3,297
Other intangible assets		146	185
Property, plant and equipment		24,254	22,136
		<u>27,748</u>	<u>25,618</u>
CURRENT ASSETS			
Inventories		3,311	2,812
Trade and other receivables		5,177	7,438
Derivative financial instruments		50	33
Deferred taxation asset	6	-	5,334
Assets held for sale		735	-
Cash and cash equivalents		962	2,976
		<u>10,235</u>	<u>18,593</u>
TOTAL ASSETS		<u>37,983</u>	<u>44,211</u>
CURRENT LIABILITIES			
Trade and other payables		(3,541)	(5,590)
Interest-bearing loans and borrowings		(3,894)	(2,326)
Deferred consideration		(943)	(834)
Derivative financial instruments		(150)	(15)
Current tax liabilities		-	(15)
		<u>(8,528)</u>	<u>(8,780)</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings		(6,912)	(5,456)
Deferred income		(1,940)	(2,129)
Deferred consideration		-	(867)
		<u>(8,852)</u>	<u>(8,452)</u>
TOTAL LIABILITIES		<u>(17,380)</u>	<u>(17,232)</u>
NET ASSETS		<u>20,603</u>	<u>26,979</u>
EQUITY			
Share capital		532	532
Share premium account		12,783	12,783
Merger reserve		30,425	30,425
Retained earnings		(21,503)	(14,987)
Exchange translation reserve		(1,634)	(1,774)
TOTAL EQUITY		<u>20,603</u>	<u>26,979</u>

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 June 2008

	Note	2008 £'000	2007 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	7	1,733	4,259
INVESTING ACTIVITIES			
Interest received		182	149
Purchase of property, plant and equipment		(4,964)	(7,927)
Acquisition of subsidiary		-	(3,846)
Acquisition of subsidiaries - deferred consideration payments		(857)	-
NET CASH USED IN INVESTING ACTIVITIES		(5,639)	(11,624)
FINANCING ACTIVITIES			
Interest paid		(777)	(347)
Repayment of bank loans		(1,002)	
Repayments of obligations under finance leases		(1,645)	
Increase in borrowings		5,547	5,087
Proceeds on issue of shares		-	141
NET CASH USED IN FINANCING ACTIVITIES		2,123	4,881
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,783)	(2,484)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,976	5,652
EXCHANGE LOSSES ON TRANSLATION		(231)	(192)
CASH AND CASH EQUIVALENTS AT END OF YEAR		962	2,976

NOTES TO THE PRELIMINARY RESULTS

Year ended 30 June 2008

1. GENERAL INFORMATION

The financial information set out above does not constitute the company's statutory accounts for the years ended 30 June 2008 or 2007, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) Companies Act 1985. Without qualifying the accounts, the auditors' report did contain a paragraph drawing attention to the fundamental uncertainty surrounding the application of the going concern basis in the preparation of the accounts, which is repeated below.

“Without qualifying our opinion, we draw attention to the disclosures made in [note 2 to the preliminary results] concerning the company's ability to continue as a going concern. The group has relied on waivers of loan covenant tests at 30 June and 30 September 2008 in order to stay in line with banking facility arrangements and needs to reschedule its capital repayments of debt. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern as it is not practicable to determine or quantify them.”

2. ACCOUNTING POLICIES

Basis of preparation

These accounting policies are based on the IFRSs, IASs and IFRIC interpretations as adopted by the EU (collectively “IFRS”).

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's Report. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Business Review. In addition note 24 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The directors have assessed the balance sheet and likely future cash flows of the company and group at the date of signing the audit report and on this basis have concluded that it is appropriate to prepare the financial statements on a going concern basis.

As described in the Chairman's report, the current environment is challenging. The company has recorded a pre tax loss and has relied on waivers of loan covenant tests at 30 June and 30 September 2008 in order to stay in line with banking facility arrangements. In forming the conclusion about the going concern basis, the directors have considered these factors together with the forecasts for the business for the period to 30 June 2010. The forecasts indicate that the company can continue to meet interest payments, but it needs to reschedule some of the capital repayments of debt and may also need to obtain waivers of future loan covenant tests. The company has met all capital and interest payments as they fell due up to the date of approving the financial statements. Whilst the directors have instituted measures to preserve cash and reschedule the current repayment obligations, these circumstances create material uncertainties over future cash flows and the availability of finance.

As explained in the Chairman's report, the board has received a preliminary indicative approach to acquire Pure Wafer plc. Whilst negotiations are progressing, there can be no certainty that an offer will be made. If any sale is arranged, it is likely to include a cash injection which will be used to reduce the debt obligations of the company, but if not, the group will need to restructure the finance facilities such that the debt can be serviced from forecasted levels of trading and cash flow.

The directors are also pursuing alternative strategic options and sources of finance in case neither the offer for the business, nor a restructuring of existing facilities, can be arranged. No commitment has been secured to date.

The directors have concluded that the combination of circumstances represents a material uncertainty that casts significant doubt upon the group's and the company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after

making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

The financial statements do not include any adjustments that would result if the going concern assumption were not applicable.

Basis of consolidation

The consolidated financial statements comprise Pure Wafer plc (the Company) and its subsidiary undertakings, Pure Wafer International Limited and Pure Wafer, Inc.

Subsidiaries are those entities controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration plus costs directly attributable to the acquisition. The excess of the cost of the acquisition over the group's share of the fair value of the net identifiable assets of the subsidiary acquired is recorded as goodwill. Intragroup transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Foreign currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the group's two operating subsidiaries, Pure Wafer International Limited and Pure Wafer Inc, this has been determined to be US\$. Pure Wafer plc as an individual entity has a Sterling functional currency.

The income and cash flow statements of non-sterling denominated group entities are translated to sterling (the group's presentation currency) at average rates of exchange in each period. Assets and liabilities of these undertakings are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation to sterling of non-sterling denominated group entity net assets at the beginning of the year.

Any translation differences that have arisen since 1 July 2006 are presented as a separate component of equity. As permitted by IFRS 1, any differences prior to this date are not included in this separate component of equity.

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

Revenue recognition

Revenue, which represents the value of goods and services supplied, excluding value added tax and trade discounts, is recognised on completion of the service or despatch of goods sold. In respect of the provision of wafer reclaim services, the service is deemed to be complete at the point that the wafers are despatched for return to the customer. If entitlement to revenue is subject to the customer's use of reclaimed wafers, the revenue would be deferred until the point at which the wafer is utilised by the customer and revenue is earned.

Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the relevant instrument. Financial assets are derecognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation is extinguished.

Non-derivative financial assets are classified as either receivables or cash and cash equivalents. They are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable

amounts. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement. For interest-bearing assets, their carrying value includes accrued interest receivable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments. Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as any unamortised issue costs.

The group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The group does not transact derivative financial instruments for trading purposes. However, as the group has decided not to hedge account for its derivative financial instruments as permitted under IAS 39, they are accounted for through the income statement. Derivative financial assets and liabilities are stated at fair value, which includes accrued interest receivable and payable where relevant. Changes in fair values are recognised in the income statement in the period in which they arise.

Provisions

A provision is recognised in the balance sheet when the group has a legal or constructive obligation as a result of a past event, where it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Property, plant and equipment

Property, plant and equipment are shown in the balance sheet at their historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items. Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement as incurred.

Depreciation is provided so as to write off the initial cost of each asset to its residual value on a straight-line basis over its estimated useful life as follows:

Long leasehold buildings	15 years
Fixtures and fittings	5 years
Plant and machinery	7 - 10 years
Computer equipment	3 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Government grants

Government grants are recorded initially as deferred income and recognised in the income statement in line with the expense to which they contribute. For grants in respect of the purchase of property, plant and equipment, the deferred income is released over the life of the related assets. For grants in respect of staff costs, the deferred income is released over the monitoring period of the grant offer.

Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets and liabilities acquired, both tangible and intangible.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and cannot be subsequently reversed. Goodwill is allocated to groups of cash-generating units for the purpose of impairment testing. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Internally generated intangible assets – research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the group's development is recognised only if all of the following conditions are met: an asset is created that can be separately identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets – other

These consist mainly of process development costs capitalised. The assets are amortised on a straight-line basis over the expected useful economic life of five years.

Impairment of assets

Assets that have an indefinite life are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Work in progress is valued to reflect the historical yield from the reclaim process. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leasing

Assets held under finance leases are recognised as assets of the group at their fair value, or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Restructuring costs

Certain costs are classified as relating to restructuring where they relate to the incremental cost of undertaking a significant changes to the operations or staff structure of the business.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

The group has chosen to adopt the revised version of IAS23 Borrowing Costs early and has taken advantage of the transitional provision included within that standard not to capitalise interest on qualifying assets that arose prior to the date of transition to IFRS on 1 July 2006.

Taxes

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements, and the tax base. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement, except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Share-based payments

In accordance with IFRS2 Share Based Payments, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the company's estimate of shares or options that will eventually vest. Where the estimate of the number of options vesting due to achievement of performance conditions is revised, the change to the share based payments cost is adjusted prospectively, leading to a share based payments credit in periods where the performance criteria that were historically expected to be achieved are determined to be unlikely to be met. Fair value of new options granted is measured by a Black-Scholes pricing model.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

The following critical judgement has been made in the process of applying the group's accounting policies. Judgements involving estimations are dealt with separately below.

Going concern

The directors' report and the going concern section of note 2 describes the material uncertainty over the ability of the group to meet the contractual capital repayment obligations of its current finance facilities in the next 12 months. In preparing the financial statements, the directors have concluded that the group is a going concern and have assumed that it will be able to continue to trade in line with its business plan, realising the value of assets and liabilities in the normal course of business.

This judgement has significant impact on the valuation and presentation of the balance sheet as, if the group were no longer a going concern, the carrying value would need to be restated to market value for assets and settlement values for liabilities. Significant items affected would include non-current assets, inventory, loans, finance leases and deferred income.

Share based payments

The group has two share option schemes that vest contingently upon the achievement of certain earnings per share targets in the years ending 30 June 2008 and 30 June 2009. In preparing the financial statements, the directors have concluded that the 2008 scheme will not vest (based on actual numbers) and also that the 2009 scheme will not vest, based on an assessment of trading to the date of signing the financial statements and estimates of results for the remainder of the year. As a result of this judgement, share based payment charges recognised in 2006 and 2007 have been reversed, leading to a credit of £426,000 in the income statement for 2008.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-current assets

Determining whether goodwill, property, plant and equipment, or intangible assets are impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill was £3.3 million and property plant and equipment was £24.2 million at the balance sheet date. Based on the assumptions made by the directors, no impairment has been booked.

Fair value of derivatives and other financial instruments

As described in note 24, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted on an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates. The fair value of financial instruments at the balance sheet date was a net liability of £100,000.

Deferred tax

The group has tax losses of some £18 million available for offset against future taxable profits. In determining the value of the deferred tax asset that can be attributed to these losses, the directors have to estimate likely future taxable profits and the period over which the asset may be recovered. The directors consider the most up-to-date forecasts for the business and assess the risks inherent in achieving those forecasts. At the balance sheet date, no deferred tax asset has been recorded, after recognising a write off of deferred tax of £5.3 million during 2008. The deferred tax asset may be recognised again in future if there is an improvement in the forecast taxable profits.

Useful life of property plant and equipment

The group's plant and machinery is amortised over a period of seven to ten years. In estimating the life of the equipment, the directors have to consider the likely period over which the technology will be used in the market and the ability of the business to maintain the equipment to an appropriate condition for use. Were the technology to be superseded in a much shorter timeframe than this, the carrying value would need to be depreciated over a shorter timeframe, resulting in an increase in the annual depreciation charge.

4. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2008	2007
	£'000	£'000
Current taxation		
United Kingdom corporation tax:		
Current tax on income for the year at 30%/28% (2007 – 30%)	-	-
	<hr/>	<hr/>
Deferred tax		
Origination and reversal of timing differences	-	810
Valuation provision recognised against deferred tax asset	5,331	-
	<hr/>	<hr/>
Total charge for the year	5,331	810
	<hr/> <hr/>	<hr/> <hr/>
The difference between the total tax shown above and the amount calculated by applying the standard rate of United Kingdom corporation tax to the (loss)/profit before tax is as follows:		
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(606)	3,595
	<hr/> <hr/>	<hr/> <hr/>
Tax on (loss)/profit on ordinary activities before tax at 30%/28% (2007 - 30%)	131	(1,079)
	<hr/> <hr/>	<hr/> <hr/>
Factors affecting charge for the year		
Expenses not deductible for tax purposes	-	10
Accelerated capital allowances and other timing differences	-	(206)
Utilisation of losses brought forward	-	(594)
Origination and reversal of timing differences	-	1,059
Valuation provision recognised against deferred tax asset for losses carried forward	(5,462)	-
	<hr/>	<hr/>
Total tax charge for the year	(5,331)	(810)
	<hr/> <hr/>	<hr/> <hr/>
The tax rate is a blended rate, of 30% to 31 March 2008 and 28% from 1 April 2008.		

5. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

	2008	2007
<i>Earnings</i>		
(Loss)/profit for the year (£'000)	(6,130)	2,785
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share ('000)	26,591	26,524
Effect of dilutive potential ordinary shares:		
Share options	-	487
Dilutive weighted average number of shares	<u>26,591</u>	<u>27,011</u>
(Loss)/earnings per ordinary share – basic	<u>(23.1)p</u>	<u>10.5p</u>
(Loss)/earnings per ordinary share – dilutive	<u>(23.1)p</u>	<u>10.3p</u>

Diluted loss per share for the year ended 30 June 2008 is the same as basic since, for a loss making period, all share options are anti-dilutive and their exercise would improve the loss per share figure. 438,000 such share options were in issue at 30 June 2008.

6. DEFERRED TAX ASSET

	2008	2007
	£'000	£'000
Balance at 1 July	5,334	5,334
Deferred tax asset provided against during the year	(5,334)	-
Balance at 30 June	<u>-</u>	<u>5,334</u>

The amounts of deferred taxation asset / (liability) recorded in the financial statements are as follows:

	£'000	£'000
Accelerated capital allowances	-	(1,417)
Short-term timing differences	-	139
Tax losses	-	6,612
	<u>-</u>	<u>5,334</u>

Due to the losses incurred during the year, the Board has taken the prudent decision to fully provide against the deferred tax asset of £5.3 million previously recognised, as it is not expected to be utilised within the foreseeable future.

The value of the unrecognised deferred tax asset at 30 June 2008 is £5.6 million.

7. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2008	2007
	£'000	£'000
(Loss)/profit for the period	(6,130)	2,785
Adjustment for:		
Taxation	5,331	810
Finance expense	777	427
Finance income	(182)	(149)
Other non-cash gains and losses	(386)	(76)
Depreciation and amortisation	2,932	2,387
Non monetary foreign exchange translation on assets/liabilities	(322)	(197)
 Operating cash flows before movement in working capital	<hr/> 2,020	<hr/> 5,987
 (Increase)/decrease in receivables	2,261	(1,933)
(Decrease)/increase in payables	(2,049)	1,630
Increase in inventory	(499)	(1,425)
 Net cash inflow from operating activities	<hr/> <hr/> 1,733	<hr/> <hr/> 4,259