CML Microsystems Plc

Preliminary Announcement for the year ended 31st March 2007

Content

Chairman's Statement

Introduction

As foreshadowed when reporting on the interim results and the outlook for the second half, the results for the full year ended 31 March 2007 reflect the material losses posted for each of the six month trading periods.

The losses at the operating level were much as had been forecast internally, and arising from the product introduction delays and lost customer issues referred to in my interim statement, but the overall reported loss is increased under the new accounting and reporting standards. Notwithstanding that, the loss is broadly in line with market expectations for the year.

Results

Group revenues amounted to £17.77m (2006: £26.33m) for the year, the decline attributable largely to the serious reduction in product shipments to a key customer within the consumer storage market area.

A loss before taxation of £3.21m (2006: Profit before taxation £3.49m) was recorded although it can be noted that a weaker dollar along with amortisation and pensions adjustments were significant contributing factors.

The posted loss per share of 17.53p was better than market expectations although down on the prior year (2006: earnings per share 17.68p).

Cash flow was negative during the year and cash balances reduced by £2.7m following a £3.2m loss before taxation and the payment of a £1.6m dividend.

Dividend

Your directors have considered the material loss and negative cash flow recorded for the year just ended, and the pressure that has been placed on cash reserves and working capital, and they believe it is appropriate to ensure that resources should be prioritised towards ensuring a return to profitability for your Company.

The Board has confidence that your Company can achieve its planned progress in this current year, and is recommending payment of a dividend of 5p per ordinary share (2006: 10.5p per ordinary share) to be payable on 3rd August 2007 to shareholders registered on 6th July 2007.

Prospects

The opening months of the current year are generally on or slightly ahead of operating targets, although firm progress will most likely not become evident before the second half. Action to address the product availability delays of last year will only begin to bite in coming months.

I am disappointed with the full year results but encouraged that steps to tackle issues under management control will bear effect. I am confident, subject to unforeseen circumstances, in expecting a firm improvement in performance for this current year, including clear visibility of the point when the Group will return to profitability.

The progress of any business is always dependent on the quality and dedication of the people it employs. I am confident that our employees are motivated towards the success of the Group and its return to profit and the Board wish to thank the employees worldwide for their dedication and support through the year.

G W Gurry
Chairman

12th June 2007

Business Review

This year can be characterised by good progress with a number of the Company's growth plans, coupled with certain disappointments that significantly impacted financial improvement over the prior year.
On a market segmental basis, performance during the year was mixed:

Wireless

A significant reduction in revenues from products shipped into the very low cost analogue leisure radio market was partially countered by growth in application areas for voice privacy and digital radio markets. The Company benefited from historic investments in this area and voice privacy IC shipments for military digital radios along with revenues from wireless data IC's for telemetry systems exceeded those that were planned.

Revenues from shipments to professional analogue radio manufacturers continued to grow and steady progress with customer design-in activity occurred. It is noteworthy that growth continued in this historic analogue segment alongside that seen within the newer digital radio markets where the Company is also well placed and has been active for some years.

Adoption of products based upon the Company's proprietary FirmASIC technology was encouraging and production volumes began shipping towards the year-end. Time-to-market with products based upon this technology improved noticeably.

Wireline Telecom

Far-East data modem IC stocking issues were cleared and revenue levels moved ahead as expected. Shipments of products to manufacturers within the wireless local loop / fixed wireless terminal markets were particularly pleasing, despite pricing pressure. It should be noted that business levels with certain customers within this market sub-segment continue to exhibit uncertainty due to the bid and tender process that is a pre-requisite to any significant contract awards.

As noted at the interim period, the Company achieved good progress with its strategy of expanding product integration, reducing time to market and improving commercial competitiveness.

Storage

In the consumer storage area, revenues were impacted by the decision of the single largest Group customer to exit the flash memory card market. This situation was unexpected as we began the year, and occurred whilst the customer base in the storage segment was relatively low, and during a period where these customers were in the process of designing-in Group products or in the early production phase.

This event was unfortunate but has to be considered along with the fact that the Company intends to become a major player in certain sub-sectors of the storage market, and volatility can be experienced during the early stages of the growth phase whilst customer concentration is high.

Outside of the consumer memory card markets, progress was on track and penetration of the customer base for solid-state drives (SSD) was significant. SSD storage devices offer a number of benefits over magnetic media for certain applications such as faster access times, lower current consumption, higher operating temperatures and improved reliability. The Company has extensive experience, a strong patent and technology portfolio and world-class products in this area that all contributed to a noteworthy revenue increase during the year.

Networking

Shipments of IC's into networking applications fell slightly year on year. This is an area where R&D investment has been substantial and the reduction in revenues masked the underlying progress that was made and reflected the typical delay from new product introduction through to customer volume production phase. Revenues from older, less integrated products fell whilst shipments of newer technology IC's released to production at the beginning of the year began to increase as the year-end approached. Investment in the development of support tools for these new IC's along with reference designs for target market applications continued.

In a year where revenues have reduced dramatically as a direct result of unexpected issues associated with a single customer, it is appropriate to reiterate that during the year the Group had no single customer who represented more than ten percent of Group revenues and only one customer who represented more than five percent of Group revenues.

Margins

Gross margins within the Group's historical markets of wireline telecom and wireless were held at previous year levels and, with the reduction in revenues experienced within the storage market, the overall gross profit margin improved slightly to 62% (2006 – 60%). Product delays within consumer storage application areas contributed to increased pricing pressure towards the year-end.

Overheads

During the year, the majority of customer transactions were in US dollars. The Group had a partial natural hedge due to significant raw material purchases being made in US dollars and no further hedging arrangements were entered into. The weakening of the US dollar had an adverse effect on profits.

Tight control over the overheads was maintained whilst having appropriate regard for the growth objectives of the business. Despite the increased control measures, overheads increased and the main contributors to that were accounting for pensions under IAS 19, the effects of amortisation and the weakening of the US dollar.

Pensions

Over the last few years the Board, in conjunction with the pension schemes trustees and actuary, have been working to reduce the scheme deficit in the Group's defined benefit pension scheme and various measures have been put in place with this objective in mind. These measures are agreed with the scheme actuary who conducts a triennial valuation, as required by law. In addition, the Group has to comply with IAS 19 for the accounting of this liability in the consolidated financial statements. In arriving at the effect of IAS 19 for retirement benefit obligations on the income statement, the scheme actuary calculates the movements in the scheme deficit. It is not practical for the Company to calculate this and then estimate the effect on internal forecasts, so any non-recurring charge has the potential to alter results unexpectedly.

During the year, a new set of pension commutation factors were introduced which had the effect of increasing the past service liabilities of the scheme. This charge amounted to £587k (2006 – £nil) and has been confirmed as a one off cost. The net of the current years service cost and the past service costs are added to the administration cost and this resulted in a charge for the year of £993k (2006 – £380k) reflecting a year-on-year negative variance of £613k. The financial income or cost is adjusted in a similar manner and this year's income amounted to £227k (2006 – cost of £20k) posting a positive comparative variance of £247k.

Pensions - continued

The net effect of IAS 19 on the income statement was to increase the loss before taxation by £766k (2006 – decrease profit before tax by £400k). A further actuarial gain was recorded of £1,063k (2006 - £222k) and this is posted through the statement of recognised income and expenditure resulting in a scheme deficit, before any deferred tax adjustment, of £2,289k (2006 - £3,135k).

Taxation

The low taxation credit within the income statement reflects the large adjustment to the taxation charge on the subsidiary Hyperstone GmbH. This followed a revised determination by the German tax authority following a tax inspection that took place on one of the previous owners. The basis on which certain allowances were claimed in prior years was disallowed and resulted in a further amount of £450k becoming payable. The whole of this amount was charged to tax during the year.

Property

In addition to property from which operating subsidiaries trade, the Group owns a number of investment properties that are stated within the balance sheet at market value. The remaining property is stated at historical cost. The Board is mindful of the significant value held in property within the balance sheet and accordingly took moves during the year to ensure this area of the business provides a better return for shareholders. The long leasehold premises at Fareham, Hampshire which was previously held as an investment property was placed on the market for sale prior to the year end and an investigation commenced into the possibility of increased development of the Group headquarters site in Essex.

Development costs

Steady new product progress was made in the wireless and wireline telecom markets with eight new products being launched during the year. Development of the networking and storage solutions products fell significantly behind schedule, as reported at the interim stage. Overall spend on development was slightly down on the previous year at £4.704m (2006 - £5.063m). The effects of adopting IAS 38, as opposed to following historical policies under UK GAAP where all development expenditure was written off during the year incurred, resulted in a small negative effect on the income statement of approximately £85k.

Working capital and cash flow

With a significant reduction in revenues becoming apparent during the year, and in keeping with management objectives, inventory levels reduced significantly and tight financial control was exercised over cash flow. The resulting effect was that cash balances reduced by £2.7m following a £3.2m loss and the payment of a £1.6m dividend.

CML Microsystems Plc
Consolidated Income Statement

	Unaudited Year end 31st March 2007 £'000	Audited Year end 31st March 2006 £'000
Revenue	17,768	26,333
Cost of sales	(6,729)	(10,473)
Gross Profit	11,039	15,860
Distribution and administration costs	(14,985)	(13,409)
	(3,946)	2,451
Other operating income	660	472
Operating (loss)/profit before adjustments	(3,286)	2,923
Share based payments	(76)	(79)
Operating (loss)/profit after adjustments	(3,362)	2,844
Revaluation of investment properties	-	695
Finance costs	(228)	(233)
Finance income	381	180
(Loss)/profit before taxation	(3,209)	3,486
Income taxation	591	(853)
(Loss)/profit after taxation attributable to equity shareholders	(2,618)	2,633
(Loss)/earnings per share		
Basic	(17.53)p	17.68p
Diluted	(17.53)p	17.66p

Statement of Recognised Income and Expense

	Unaudited Year end 31st March 2007 £'000	Audited Year end 31st March 2006 £'000
(Loss)/profit for the period	(2,618)	2,633
Foreign exchange differences	(346)	350
Actuarial gain	1,063	222
Income tax on actuarial gain	(319)	(67)
Recognised (losses) and gains relating to the period	(2,220)	3,138

CML Microsystems Plc
Consolidated Balance Sheet

	Unaudited 31st March 2007 £'000	Audited 31st March 2006 £'000
Assets		
Non current assets		
Tangible assets - Property, plant and equipment	6,803	7,256
Tangible assets - Investment property	2,245	3,845
Intangible assets – Development costs	5,984	6,133
Intangible assets - Goodwill on consolidation	3,512	3,512
Deferred tax asset	1,717	1,165
	20,261	21,911
Current assets		
Inventories	1,595	2,233
Trade receivables and prepayments	3,057	4,899
Current tax assets	419	537
Cash and cash equivalents	3,000	5,708
	8,071	13,377
Non current assets classified as held for sale - property	1,600	-
	9,671	13,377
Total assets	29,932	35,288
Liabilities		
Current liabilities		
Bank loans and overdrafts	4,000	4,000
Trade and other payables	2,248	3,297
Current tax liabilities	761	365
	7,009	7,662
Non current liabilities		
Deferred tax liabilities	3,128	3,159
Provisions	30	147
Retirement benefit obligation	2,289	3,135
	5,447	6,441
Total liabilities	12,456	14,103
Net Assets	**17,476**	**21,185**
Equity		
Share capital	747	745
Convertible warrants	-	120
Capital reserve	4,148	4,039
Share based payments reserve	238	162
Foreign exchange reserve	(36)	310
Accumulated profits	12,379	15,809
Shareholders' equity	**17,476**	**21,185**

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Consolidated Cash Flow Statement

	Unaudited Year end 31st March 2007 £'000	Audited Year end 31st March 2006 £'000
Operating activities		
Net (loss)/profit for the period before income taxes	(3,209)	3,486
Adjustments for:		
Revaluation of investment properties	-	(695)
Depreciation	706	666
Amortisation of development costs	4,789	4,005
Movement in pensions deficit	217	(147)
Share based payments	76	79
Exceptional restructuring costs	(117)	(273)
Interest expense	228	233
Interest income	(381)	(180)
Increase/(decrease) in working capital	1,418	(2,533)
Cash flows from operating activities	3,727	4,641
Income tax refunded	236	69
Net cash flows from operating activities	3,963	4,710
Investing activities		
Purchase of tangible fixed assets	(369)	(722)
Investment in intangible assets	(4,704)	(5,063)
Disposals of tangible fixed assets	56	19
Interest income	381	180
Net cash flows from investing activities	(4,636)	(5,586)
Financing activities		
Issue of ordinary shares	-	32
Repayment of bank loan	-	(377)
Dividends paid to group shareholders	(1,564)	(1,564)
Interest expense	(228)	(233)
Net cash flows from financing activities	(1,792)	(2,142)
Decrease in cash and cash equivalents	(2,465)	(3,018)
Movement in cash and cash equivalents:		
At start of period	5,708	8,449
Decrease	(2,465)	(3,018)
Effects of exchange rate changes	(243)	277
At end of period	3,000	5,708

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Consolidated Statement of Changes in Equity

	Share Capital	Convertible Warrants	Capital reserves	Share based payments	Foreign Exchange reserve	Accumulated profits	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1st April 2005 Audited	**744**	**120**	**4,007**	**82**	**(40)**	**14,585**	**19,498**
Shares issued	1		32				33
Foreign Exchange differences					350		350
Net actuarial gains recognised directly to equity						222	222
Deferred tax on actuarial gains						(67)	(67)
Dividends paid						(1,564)	(1,564)
Profit for period						2,633	2,633
Share based payments				80			80
At 1st April 2006 Unaudited	**745**	**120**	**4,039**	**162**	**310**	**15,809**	**21,185**
Warrants converted/ lapsed	2	(120)	109			9	-
Foreign Exchange differences					(346)		(346)
Net actuarial gains recognised directly to equity						1,063	1,063
Deferred tax on actuarial gains						(320)	(320)
Dividends paid						(1,564)	(1,564)
Loss for period						(2,618)	(2,618)
Share based payments				76			76
At 31st March 2007	**747**	**-**	**4,148**	**238**	**(36)**	**12,379**	**17,476**

Notes

1. Presentation of results

The directors approved this Preliminary announcement on 11th June 2007.

The results for the year have been prepared using International Financial Reporting Standards and the accounting policies as set out in the most recently published financial statements along with the only new accounting policy relating to non current assets held for sale which have been valued at the lower of the carrying value or fair value less costs to sell. The reclassification to current assets takes place when the assets are placed on the open market available for sale.

The audited financial information for the year ended 31st March 2006 is based on the statutory accounts for the financial year ended 31st March 2006 that have been filed with the Registrar of Companies and on which the auditors gave an unqualified audit opinion.

The financial information contained in this announcement does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985.

2. Dividend

A dividend of 5p per Ordinary Share (2006: 10.5p per Ordinary Share) is recommended in respect of the year ended 31st March 2007 and will be paid on 3rd August 2007 to shareholders on the register as at 6th July 2007.

3. Earnings per share

The calculation of basic and diluted (loss)/earnings per share is based on the (loss)/profit attributable to shareholders, divided by the weighted average number of shares in issue during the year.

CML Microsystems Plc

Oval Park – Langford – Maldon – Essex – CM9 6WG – England
Telephone +44 (0) 1621 875500- Facsimile +44 (0) 1621 875606

e-mail group@cmlmicroplc.com - http://www.cmlmicroplc.com