CML Microsystems Plc

Preliminary Announcement for
the year ended
31st March 2008

Contents

Chairman's Statement

Introduction
The results for the full year ended 31 March 2008 match quite well with market expectations for a firm improvement over those for the previous trading year.

The significant reduction in operating loss includes progress achieved with improving gross margins and operating costs through the year.

As anticipated when reporting figures for the opening half, conditions during the remainder of the trading year remained challenging and half-on-half gains in operating results were limited.

Results
Group revenues of £17.10m (2007: £17.77m) were posted for the full year, the decline largely attributable to a downturn in customer contract awards within the telecommunication sector. Gross margin shows an improvement to 68% (2007: 62%).

A reduced loss before tax of £1.73m (2007: £3.21m) is recorded, although it should be noted that current accounting rules for the treatment of pension effects made a positive contribution of £355k (2007: negative contribution of £217k).

The reported loss per share is 4.13p against a prior year loss of 17.53p.

Dividend
Your directors have considered the negative cash flow recorded for the year just ended and the forward requirements against resources through the year ahead. They believe that the appropriate course must be to maintain the availability of adequate resource margins against foreseeable requirements.

They are conscious that the Company has declared payment of a dividend in each of the 24 years in which it has traded as a public company, but believe that this would not be an appropriate course with respect to the year just ended.

They do not recommend payment of a dividend for the year ended 31 March 2008.

Property
During the year the Group placed various non-operational properties under offer for sale. As the result of the downturn that is taking place in the commercial property market, no satisfactory disposals were concluded and the properties remain with the market.

It is uncertain when disposals will take place, but Group planning discounts any income from such disposals in the current trading year.

Prospects
A number of unforeseen obstacles encountered during the second half disappointed my initial expectations for a slightly better outcome for the year, but I am pleased with the planned progress that was achieved in a number of operational areas and the benefits that can be expected to flow through.

Trading results for the opening months of this year are in line with Group expectations, which, subject to unforeseen circumstances, are for a clear further improvement in performance.

G W Gurry
Chairman

16th June 2008

Operating and Financial Review

Overview

During this year, we continued with our overall strategy of improving performance by combining our resources, proprietary technology and system-level understanding to develop and successfully market class-leading semiconductor products for global communication and data storage markets.

We maintained the focus on the operational areas that are key to our ultimate objective for the creation of sustainable business growth. In particular, new product development and application support activities began to benefit from our global approach to resource and knowledge sharing, whilst the continual drive for efficiency improvements resulted in lower overall operating costs.

At the interim stage, I highlighted that we were experiencing a transitional year, with certain historic markets undergoing technological change and other market areas poised for growth. These results reflect that ongoing transition.

Financial results

Group revenues for the year ended 31 March 2008 were £17.10m representing a decrease of 4% over the prior year (2007: £17.77m). It is noteworthy that the prior year included revenues of over £2m from a key European customer that withdrew from the consumer memory card market during that year. When adjusted for this specific event, revenues this year increased 8%, highlighting the underlying progress made.

Gross profit for the year increased to £11.71m (2007: £11.04m). The gross margin was 68% (2007: 62%) reflecting a combination of reduced materials costs and overall product mix. Total distribution and administration expenses fell to £13.67m (2007: £14.99m) although disregarding the effects of statutory pension accounting from both years, the improvement amounted to £611k.

Net finance costs were £144k against a prior year income of £153k due to reduced cash balances through the year, pension effects and higher borrowings.

The higher gross margin, coupled with a reduction in operating expenses, helped narrow the loss before tax to £1.73m (2007: £3.21m loss) representing a 46% improvement on last year.

Pressure on cash flow increased through the year following continued trading losses. Cash usage was £2.12m (2007: £2.46m) after payment of a net prior-year tax charge of £747k (2007: 236k credit) and a dividend of £747k (2007: £1.56m).

An increase in raw materials mostly to cope with legacy product planning requirements saw inventory levels rise to £1.75m (2007: 1.60m). A combination of lower revenues and a decrease in receivables as a result of tight financial control resulted in a working capital reduction of £440k. Capital expenditure was £358k (2007: £369k).

Through the year, the majority of customer transactions were in US dollars. The Group does not enter into hedging arrangements in respect of foreign currency exposure although a partial natural hedge exists due to the majority of raw material purchases being in US dollars. Whilst this affords some protection, our largest cost centres are located in the UK and Germany resulting in substantial exposure to foreign currency fluctuations.

The tax credit within the income statement of £1.11m is higher than expected mainly as a result of deferred taxation movements following the reclassification of certain group investment properties that were put on the market for sale. Almost half of the tax credit (£519k) relates to a deferred tax release in respect of this.

Research and development expenses fell by 16% to £3.95m (2007: £4.70m) reflecting the continued focus on leveraging internal engineering resources at the expense of external spend, where possible. This lower level of expenditure is posted on the back of a healthy flow of new product releases following multi-year investments in the design of core technology platforms.

Further progress was made with reducing the deficit relating to the Group's defined benefit pension scheme. Despite the turbulence that was experienced in the financial markets during the year a small surplus was recorded at the year end. Whilst this is encouraging, it is too early to know if this is a long-term position. We need to await the results of the actuary's latest triennial valuation through the coming year to decide if any refund or reduction in future contributions will be available.

The effect on the income statement of accounting for pensions under IAS 19 was to reduce the administration costs by £259k (2007: increase of £444k) and to increase the finance income by £96k (2007: £227k). The independent scheme actuary provides the calculations used under IAS 19 and the potential exists for this to alter future results unexpectedly.

MARKETS REVIEW

Wireless

Revenues from the sale of semiconductors into the wireless market were flat year-on-year with the Far East and European regions being the two largest contributors. Customer products through the period included military, professional and leisure two-way radios, paging devices and narrowband wireless data modems. Within each of these products, our integrated circuits (IC's) performed a number of functions including signal processing, voice privacy and radio frequency (RF) transmission and reception.

Particularly pleasing was the contribution made from those products built on our proprietary FirmASIC technology along with growing customer adoption of the RF product range. The strategy to expand our semiconductor footprint within customer designs continued with the release of new IC's for voice compression and privacy along with continuing development of the RF product portfolio.

A reduction in revenues from the low-cost analogue radio market offset gains in the newer market areas. This decline was mostly due to our legacy product fit. Steps were taken early in the year to reverse this trend and volume orders for new products aimed at growing revenues in this segment were received shortly after the year closed. Semiconductor shipments into public utility telemetry applications within China performed ahead of expectations and global design-in levels for marine ship identification (AIS) products increased.

Storage

Within the storage market segment, the prominent applications for our semiconductors during the year were inclusion within memory cards and solid state drive products in varying form factors. Customer products containing our IC's were typically used as an alternative to magnetic storage media in commercial and industrial application areas that demand high-reliability under challenging conditions.

Revenue was fractionally down on the prior year although as previously stated, after adjusting for the significant customer who exited the market during that year, business increased. This year, the majority of business emanated from the Americas and Far Eastern regions. Good progress was made with expanding the customer base and in positioning ourselves to be a technology leader in our chosen focus areas.

Products that had previously been subject to development delays were released to market and were contributing to revenue shortly after the year-end. New IC development productivity remained a key focus area within this segment and Group resources were deployed appropriately to maximise longer-term benefits.

Telecom

The sale of semiconductors into the telecom segment weakened against the comparable period and was the main contributor to the total reduction in Group revenues. Continued volatility within wireless local loop application areas coupled with the declining payphone market resulted in a disappointing performance being posted. Good gains from customers within the Americas were more than offset by the fall in business levels from Korea and China. Applications for IC's within certain security markets demonstrated more resilience.

Networking

Revenue contribution from the networking segment posted double-digit percentage growth as the Group's HyNet product began to generate revenues following development delays that were encountered during the previous year. The delivery of products into security market IP-camera applications was encouraging.

Equipment

Radio Data Technology Limited, the Group's equipment division, posted an operating profit of £178k (2007: £101k) on the back of a steady increase in revenue to £1.13m (2007: £1.00m). The market acceptance of new digital wireless video products for CCTV applications made a noteworthy contribution.

Across all market areas during the year, no customer accounted for more than 11% of Group revenues and only one customer accounted for more than 5%.

SUMMARY & OUTLOOK

As already stated, the year under review was very much a transitional one. An improved trading performance was posted despite the reduction in revenues that became apparent through the year. Operationally, we made visible progress with our policy to minimise costs whilst having close regard for our growth objectives. Additionally, we took significant steps with leveraging our global engineering and support resources to focus on those target areas that are expected to generate consistent growth.

The segmental market outlook is varied.

We expect to benefit from the growth areas that are emerging within our wireless sector as voice-based professional and leisure radios begin to embrace digital technology over the coming years. Additionally, the TETRA and marine vessel identification markets are growing and customer penetration levels are good. Our strategy for expanding the product range to include complementary functionality is intended to widen our available customer base.

Within storage, the Group has secured good positions inside customer products that require high levels of reliability under arduous operating conditions. This is a growing area that includes military, aeronautical, medical and industrial end applications. We are building on our patent protected technology to deliver class leading semiconductor solutions. The challenge is to transfer that position across other emerging sub-sectors that demand similar performance. This remains a key management focus.

Any near term progress within the telecom sector is likely to be dominated by the high volume wireless local loop opportunities. Our customers typically have low order book visibility in this market, which represents an element of uncertainty going forward.

The contribution to Group revenues from the networking segment is at an early stage and the signs are encouraging. Through the coming year we will have better clarity on the medium to long-term contribution we can expect from this market.

Subsequent to the year end, the company renegotiated its banking facilities and terms. These new arrangements support progress of the growth strategy.

The Board continues to have confidence in the medium term outlook and looks forward to the ongoing transition of the business. We remain focused on delivering sustainable growth over the coming years.

Our success will be built on the continued dedication and support of our global employee base, encompassing six countries on three continents. On behalf of the Board, I would like to acknowledge the crucial role they play and thank them for their ongoing commitment.

C A Gurry
Managing Director

16th June 2008

CML Microsystems Plc
Consolidated Income Statement

Continuing operations	Unaudited Year end 31st March 2008 £'000	Audited Year end 31st March 2007 £'000
Revenue	17,098	17,768
Cost of sales	(5,393)	(6,729)
Gross Profit	11,705	11,039
Distribution and administration costs	(13,671)	(14,985)
	(1,966)	(3,946)
Other operating income	430	660
Loss before share based payments	(1,536)	(3,286)
Share based payments	(48)	(76)
Loss after share based payments	(1,584)	(3,362)
Finance costs	(334)	(228)
Finance income	190	381
Loss before taxation	(1,728)	(3,209)
Income tax expense	1,111	591
Loss after taxation attributable to equity holders of the Company	(617)	(2,618)
Loss per share		
Basic	(4.13)p	(17.53)p
Diluted	(4.13)p	(17.53)p

Statement of Recognised Income and Expense

	Unaudited Year end 31st March 2008 £'000	Audited Year end 31st March 2007 £'000
Loss for the year	(617)	(2,618)
Foreign exchange differences	82	(346)
Actuarial gain	1,934	1,063
Income tax on actuarial gain	(580)	(319)
Net income for the year directly recognised in equity	1,436	398
Recognised gains and (losses) relating to the year attributable to equity holders of the Company	819	(2,220)

CML Microsystems Plc
Consolidated Balance Sheet

	Unaudited 31st March 2008 £'000	Audited 31st March 2007 £'000
Assets		
Non current assets		
Property, plant and equipment	6,261	6,803
Investment property	415	2,245
Development costs	5,341	5,984
Goodwill	3,512	3,512
Deferred tax asset	1,290	1,717
	16,819	20,261
Current assets		
Inventories	1,745	1,595
Trade receivables and prepayments	2,535	3,057
Current tax assets	410	419
Cash and cash equivalents	1,891	3,000
	6,581	8,071
Non current assets classified as held for sale - property	3,770	1,600
Total assets	27,170	29,932
Liabilities		
Current liabilities		
Bank loans and overdrafts	5,075	4,000
Trade and other payables	2,320	2,248
Current tax liabilities	54	761
	7,449	7,009
Non current liabilities		
Deferred tax liabilities	2,125	3,128
Provisions	-	30
Retirement benefit obligation	-	2,289
	2,125	5,447
Total liabilities	9,574	12,456
Net Assets	**17,596**	**17,476**
Capital and reserves attributable to equity holders of the Company		
Share capital	747	747
Convertible warrants	-	-
Share Premium	4,148	4,148
Share based payments reserve	50	238
Foreign exchange reserve	46	(36)
Accumulated profits	12,605	12,379
Shareholders' equity	**17,596**	**17,476**

CML Microsystems Plc
Consolidated Cash Flow Statement

	Unaudited Year end 31st March 2008 £'000	Audited Year end 31st March 2007 £'000
Operating activities		
Net loss for the year before income taxes	(1,728)	(3,209)
Adjustments for:		
Depreciation	579	706
Amortisation of development costs	4,684	4,789
Movement in pensions deficit	(355)	217
Share based payments	48	76
Exceptional restructuring costs	-	(117)
Interest expense	334	228
Interest income	(190)	(381)
Decrease in working capital	440	1,418
Cash flows from operating activities	3,812	3,727
Income tax (paid)/refunded	(747)	236
Net cash flows from operating activities	3,065	3,963
Investing activities		
Purchase of property, plant and equipment	(358)	(369)
Investment in development costs	(3,952)	(4,704)
Disposals of property, plant and equipment	13	56
Interest income	190	381
Net cash flows from investing activities	(4,107)	(4,636)
Financing activities		
Increase in short term borrowings	1,075	-
Dividends paid	(747)	(1,564)
Interest expense	(334)	(228)
Net cash flows from financing activities	(6)	(1,792)
Decrease in cash and cash equivalents	(1,048)	(2,465)
Movement in cash and cash equivalents:		
At start of year	3,000	5,708
Decrease in cash and cash equivalents	(1,048)	(2,465)
Effects of exchange rate changes	(61)	(243)
At end of year	1,891	3,000

CML Microsystems Plc
Consolidated Statement of Changes in Equity

	Share Capital £'000	Convertible Warrants £'000	Share Premium £'000	Share Based Payments £'000	Foreign Exchange Reserve £'000	Accumulated Profits £'000	Total £'000
At 1st April 2006 Audited	**744**	**120**	**4,039**	**162**	**310**	**15,809**	**21,184**
Foreign Exchange differences					(346)		(346)
Net actuarial gains recognised directly to equity						1,063	1,063
Deferred tax on actuarial gains						(319)	(319)
Loss for year						(2,618)	(2,618)
	744	120	4,039	162	(36)	13,935	18,964
Warrants converted/ lapsed	3	(120)	109			8	-
Dividends paid						(1,564)	(1,564)
Share based payments				76			76
At 1st April 2007 Unaudited	**747**	**-**	**4,148**	**238**	**(36)**	**12,379**	**17,476**
Foreign Exchange differences					82		82
Net actuarial gains recognised directly to equity						1,934	1,934
Deferred tax on actuarial gains						(580)	(580)
Loss for year						(617)	(617)
	747	-	4,148	238	46	13,116	18,295
Dividends paid						(747)	(747)
Share based payments in year				48			48
Share based payments transferred on cancellation				(236)		236	-
At 31st March 2008	**747**	**-**	**4,148**	**50**	**46**	**12,605**	**17,596**

1. Segmental Analysis

Primary - Business

	Unaudited 2008			Audited 2007		
	Equipment	Semi-conductor components	Group	Equipment	Semi-conductor components	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue						
By origination	1,130	22,474	23,604	1,003	21,797	22,800
Inter-segmental revenue	-	(6,506)	(6,506)	-	(5,032)	(5,032)
Segmental revenue	1,130	15,968	17,098	1,003	16,765	17,768
(Loss)/Profit						
Segmental results	178	(1,762)	(1,584)	101	(3,463)	(3,362)
Net financial income/(expense)			(144)			153
Income tax			1,111			591
Loss after taxation			(617)			(2,618)
Assets and Liabilities						
Segmental assets	708	20,578	21,286	762	23,190	23,952
Unallocated corporate assets						
Investment property			4,184			3,845
Deferred taxation			1,290			1,717
Current tax receivable			410			418
Consolidated total assets			27,170			29,932
Segmental liabilities	93	2,227	2,320	158	2,120	2,278
Unallocated corporate liabilities						
Deferred taxation			2,125			3,128
Current tax liability			54			761
Bank loans and overdrafts			5,075			4,000
Retirement benefit obligation			-			2,289
Consolidated total liabilities			9,574			12,456
Other segmental information						
Property plant and Equipment additions	2	356	358	1	368	369
Development cost additions	72	3,880	3,952	74	4,630	4,704
Depreciation	16	563	579	17	689	706
Amortisation	73	4,611	4,684	76	4,713	4,789
Other significant non cash expenses	-	54	54	2	118	120

Inter-segmental transfers or transactions are entered into under commercial terms and conditions appropriate to the location of the entity whilst considering that the parties are related.

2. Dividend paid and proposed - Final

Declared and paid during the period

Equity dividends paid on 5p ordinary shares	Unaudited 2008 £'000	Audited 2007 £'000
10.5p per share dividend for year ended 31 March 2006	-	1,564
5p per share dividend for year ended 31 March 2007	747	-

The directors do not recommend the payment of a dividend in respect of the year ended 31st March 2008.

3. Income tax

The directors consider that tax will be payable at varying rates according to the country of incorporation of a subsidiary and have provided on that basis.

	Unaudited 2008 £'000	Audited 2007 £'000
UK income tax	(364)	(358)
Overseas income tax	329	645
Total current tax	(35)	287
Deferred tax	(1,076)	(878)
Reported income tax charge/(credit)	(1,111)	(591)

4. Loss per share

The calculation of basic earnings per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The share options are not expected to have a dilutive effect on the loss per share as the likelihood of exercise is low given the recent share price movements.

	Ordinary 5p shares	
	Weighted Average Number	Diluted Number
12 months ended 31 March 2008 (unaudited)	14,933,733	14,933,733
12 months ended 31 March 2007 (audited)	14,933,733	14,933,733

5. Investment Property

Investment properties are re-valued at each discrete period end by the directors and every third year by independent Chartered Surveyors on an existing use open market basis. No depreciation is provided on freehold investment properties or on leasehold investment properties. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement. The directors are of the opinion that there has been no material change in the carrying value of investment properties.

6. General

The directors approved this Preliminary announcement on 16th June 2008.

The results for the year have been prepared using the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU and the accounting policies as set out in the most recently published financial statements with no new accounting policies.

The audited financial information for the year ended 31st March 2007 is based on the statutory accounts for the financial year ended 31st March 2007 that have been filed with the Registrar of Companies. The auditors reported on those accounts: their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying the reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31st March 2008 will be filed in due course.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 31st March 2008 or 2007 as defined by Section 240 of the Companies Act 1985.

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