



**CML Microsystems Plc**



2007

Half Yearly Financial Report  
for the period ended  
30 September 2007



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## **Chairman's Statement**

### **Introduction**

The results for the six-month trading period ending 30 September 2007 show a loss somewhat greater than earlier internal expectations and reflect the further effects of the operational problems that impacted heavily on the previous year's trading performance.

They nevertheless mark an expected material improvement over the results for the immediately preceding six months and are an indication of progress taking place at the group operating level.

### **Results**

Group revenues for the opening six-month period were £8.49m, down approximately 11% against the comparable previous period (2006: £9.46m), and the loss before tax is increased to £1.1m (2006: £0.83m).

The reported loss per ordinary share shows an increase to 8.05p (2006: loss 4.90p per share) resulting partly from a higher comparative income tax charge.

Further details and background to the results are given in the Operating and Financial Review that follows from this Statement.

### **Dividend**

As in previous years, your Board is not recommending payment of an interim dividend.

### **Property**

In June of this year your Board announced its intention to improve shareholder return from the non-operational property assets held in the balance sheet, and one such property at Fareham, Hampshire was placed for sale to the market. Having recently completed preparatory steps, it is likely that a further property, the original UK operating premises at Witham, Essex, will also be disposed of as circumstances favour.

### **Prospects**

The Board has taken steps earlier this year to begin implementing the changes required to deliver a growth-oriented business. Realisation of the benefits associated with these changes will take time to flow through but the Group's management team are committed to following this strategic direction and creating sustainable profit growth for the Group.

The remainder of this current trading year will continue to be challenging, but your Board remains confident, subject to unforeseen circumstances, that the Group's return to profitability will become evident shortly thereafter.

G. W. Gurry  
Chairman

19 November 2007

## **Operating and Financial Review**

### **Introduction**

Our strategy remains the delivery of increasing shareholder value by leveraging the Group's extensive design skills, diversified technology portfolio and system-level understanding, to develop world-class semiconductor products for global communication and data storage market segments.

During recent years we have invested heavily in developing technology that enables us to be at the forefront of certain emerging markets whilst continuing to ensure that existing market segments will be served by class-leading product introductions for a number of years to come.

The first six months of the year ending 31 March 2008 saw important new product releases within the storage and wireless market segments. Early stage customer adoption cycles commenced and certain extensive pre-qualification procedures continued through the period end. During this period of important new product releases and protracted customer adoption rates, the Board continued to focus on cost control whilst having due regard for the Group's growth objectives.

### **Financial Results & Business Summary**

Group revenues for the six-month period to 30 September 2007 were £8.49m representing a decrease over the £9.46m achieved in the first half of 2006. Revenues during the first six months of 2006 included shipments to a key customer that, as previously reported, withdrew from the memory card market during that year. A corresponding loss before tax of £1.1m was recorded. This reflected an increase over the comparable period (2006: £0.83m) and an improvement against the sequential half year. Gross profit margin improved to 71% (2006: 64%) largely as a result of product mix.

During the first six months, the Group had one customer who accounted for 12% of Group revenues and one customer who represented 4%. No other single customer contributed more than 3% of Group revenues.

Cash balances reduced from £3m to £1.82m following the payment of the 2007 dividend (£0.75m) and an increase in inventory levels from £1.6m at 31 March 2007 to £1.96m at 30 September 2007. The increased period end inventory level was expected and subsequently returned to appropriate levels.

As highlighted in the last annual report, the Board expects further pressure to be placed on cash-reserves and working capital throughout the remainder of the year and, during the first six months, continued to prioritise resources towards ensuring a return to profitability for the Group. Existing bank facilities were renewed in July for a further 12 months and the Board has communicated its intention to realise value from the sale of certain non-operational property assets. The future timing of any property disposals represents an element of uncertainty with regards to cash flow and other income.

Through the first half 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 a substantial exposure to foreign currencies, and a potential future risk.

### **Markets**

Within the wireless market segment, the prominent application areas for our IC's through the period were professional mobile radio, leisure two-way radio and narrowband wireless data. Adoption of our voice privacy IC's within both the professional and leisure markets made a notable contribution and expansion of the product range to include RF (radio frequency) functionality continued.

The storage segment benefited from an increase of product shipments into the Americas, where the Group has a significant addressable market.

The existing customer base began to ramp production volumes and new customer design wins were recorded that are expected to begin contributing meaningful revenues during the next calendar year. The major applications for our storage products in the first half were inclusion within solid state disk (SSD) and disk-on-module products which are used as an alternative to magnetic storage media in commercial and industrial application areas that demand high-reliability and an extended product lifecycle.

The sale of Group products into the telecom segment continued to be volatile. Good demand for modem IC's within wireless security alarm products was countered by weakness in shipments into wireless local loop telephony applications. This market situation is expected to continue for the remainder of the financial year. The Group has reduced costs and improved functionality of the product range in this segment and is well placed to capitalise on opportunities as they materialise.

The networking segment exhibited improved shipments during the period with initial deliveries being recorded for our HyNet products for use within IP-camera applications. This followed the release of a reference-design for this application area which is typical of the demands from our Far East customer base.

### **Summary**

Group performance during the first six months reflects the period of transition we are in. Certain historic markets are exhibiting technological change and the Group has invested significantly to ensure we are well placed to reap the rewards associated with those changes. Newer application areas for Group products are poised for substantial growth and we are well placed to benefit from the associated opportunities. The Board continue to focus on being able to deliver sustainable progress beyond this year.

As previously announced, our Chairman, Chief Executive and co-founder, George Gurry, relinquished his executive roles at the period end and will remain non-executive Chairman. His contribution has been fundamental in positioning the Group for future growth and, on behalf of the Board, I would like to thank him for his considerable achievements.

Finally, I would like to thank our dedicated employees for their achievements so far and acknowledge the crucial role they continue to play in our future. There remains much to do in achieving future success but the Board has confidence in the medium term outlook.

C.A. Gurry  
Managing Director

19 November 2007

**CML Microsystems Plc****Consolidated Income Statement**

	<b>6 Months End 30/09/07 £'000</b>	<b>6 Months End 30/09/06 £'000</b>	<b>12 Months End 31/03/07 £'000</b>
<b>Continuing Operations</b>			
<b>Revenue</b>	8,487	9,460	17,768
Cost of sales	(2,437)	(3,455)	(6,729)
<b>Gross Profit</b>	<u>6,050</u>	<u>6,005</u>	<u>11,039</u>
Distribution and administration costs	(7,162)	(7,149)	(14,985)
	<u>(1,112)</u>	<u>(1,144)</u>	<u>(3,946)</u>
Other operating income	125	374	660
<b>Operating loss before adjustments</b>	<u>(987)</u>	<u>(770)</u>	<u>(3,286)</u>
Release of restructuring provision	18	-	-
Share based payments	(18)	(40)	(76)
<b>Operating loss after adjustments</b>	<u>(987)</u>	<u>(810)</u>	<u>(3,362)</u>
Finance cost	(166)	(110)	(228)
Finance income	57	88	381
<b>Loss before taxation</b>	<u>(1,096)</u>	<u>(832)</u>	<u>(3,209)</u>
Income Tax	(107)	100	591
<b>Loss for the period attributable to equity shareholders</b>	<u>(1,203)</u>	<u>(732)</u>	<u>(2,618)</u>
<b>Loss per share</b>			
Basic	(8.05p)	(4.90p)	(17.53p)
Diluted	<u>(8.05p)</u>	<u>(4.90p)</u>	<u>(17.53p)</u>

**Statement of Recognised Income and Expense**

	<b>6 Months End 30/09/07 £'000</b>	<b>6 Months End 30/09/06 £'000</b>	<b>12 Months End 31/03/07 £'000</b>
<b>Loss for the period</b>	(1,203)	(732)	(2,618)
Foreign exchange differences	(44)	(261)	(346)
Actuarial gain	-	-	1,063
Income tax on actuarial gain	-	-	(319)
<b>Recognised losses relating to the period</b>	<u>(1,247)</u>	<u>(993)</u>	<u>(2,220)</u>

**CML Microsystems Plc****Consolidated Balance Sheet**

	30/09/07 £'000	30/09/06 £'000	31/03/07 £'000
<b>Assets</b>			
<b>Non current assets</b>			
Tangible assets - Property, plant and equipment	6,699	7,084	6,803
Tangible assets - Investment property	2,245	3,845	2,245
Intangible assets - Development costs	5,729	6,789	5,984
Intangible assets - Goodwill on consolidation	3,512	3,512	3,512
Deferred tax asset	1,715	1,159	1,717
	<u>19,900</u>	<u>22,389</u>	<u>20,261</u>
<b>Current assets</b>			
Inventories	1,963	1,766	1,595
Trade receivables and prepayments	3,005	3,985	3,057
Current tax assets	148	-	419
Cash and cash equivalents	1,816	3,978	3,000
	<u>6,932</u>	<u>9,729</u>	<u>8,071</u>
Non current assets classified as held for sale - property	1,600	-	1,600
	<u>8,532</u>	<u>9,729</u>	<u>9,671</u>
<b>Total assets</b>	<u>28,432</u>	<u>32,118</u>	<u>29,932</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank loan	4,000	4,000	4,000
Trade and other payables	3,093	2,826	2,248
Current tax liabilities	424	302	761
	<u>7,517</u>	<u>7,128</u>	<u>7,009</u>
<b>Non current liabilities</b>			
Deferred tax liabilities	3,126	3,135	3,128
Provisions	-	52	30
Retirement benefit obligation	2,289	3,135	2,289
	<u>5,415</u>	<u>6,322</u>	<u>5,447</u>
<b>Total liabilities</b>	<u>12,932</u>	<u>13,450</u>	<u>12,456</u>
<b>Net Assets</b>	<u>15,500</u>	<u>18,668</u>	<u>17,476</u>
<b>Equity</b>			
Share capital	747	747	747
Capital reserve	4,148	4,148	4,148
Share based payments reserve	19	202	238
Foreign exchange reserve	(80)	49	(36)
Accumulated profits	10,666	13,522	12,379
<b>Shareholders' equity</b>	<u>15,500</u>	<u>18,668</u>	<u>17,476</u>



**CML Microsystems Plc****Consolidated Cash Flow Statement**

	<b>6 Months End 30/09/07 £'000</b>	<b>6 Months End 30/09/06 £'000</b>	<b>12 Months End 31/03/07 £'000</b>
<b>Operating activities</b>			
Net loss for the period before income taxes	(1,096)	(832)	(3,209)
Adjustments for:			
Depreciation	324	377	706
Amortisation of development costs	2,205	1,895	4,789
Movement in pension deficit	-	-	217
Share based payments	18	40	76
Exceptional restructuring costs	(30)	(95)	(117)
Interest expense	166	110	228
Interest income	(57)	(88)	(381)
Increase in working capital	530	1,159	1,418
<b>Cash flows from operating activities</b>	<u>2,060</u>	<u>2,566</u>	<u>3,727</u>
Income tax (paid)/refunded	(176)	334	236
<b>Net cash flows from operating activities</b>	<u>1,884</u>	<u>2,900</u>	<u>3,963</u>
<b>Investing activities</b>			
Purchase of tangible assets	(230)	(281)	(369)
Investment in intangible assets	(1,919)	(2,605)	(4,704)
Disposals of tangible assets	-	32	56
Interest income	57	88	381
<b>Net cash flows from investing activities</b>	<u>(2,092)</u>	<u>(2,766)</u>	<u>(4,636)</u>
<b>Financing activities</b>			
Dividends paid	(747)	(1,564)	(1,564)
Interest expense	(166)	(110)	(228)
<b>Net cash flows from financing activities</b>	<u>(913)</u>	<u>(1,674)</u>	<u>(1,792)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(1,121)</u>	<u>(1,540)</u>	<u>(2,465)</u>
Movement in cash and cash equivalents:			
At start of period	3,000	5,708	5,708
Decrease	(1,121)	(1,540)	(2,465)
Effects of exchange rate changes	(63)	(190)	(243)
<b>At end of period</b>	<u>1,816</u>	<u>3,978</u>	<u>3,000</u>

**CML Microsystems Plc****Consolidated Statement of Changes in Equity**

	Share capital	Convertible warrants	Capital reserve	Share based payments	Foreign exchange reserve	Accumulated profits	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 April 2006</b>	<b>745</b>	<b>120</b>	<b>4,039</b>	<b>162</b>	<b>310</b>	<b>15,809</b>	<b>21,185</b>
Warrants converted/lapsed	2	(120)	109			9	-
Foreign exchange differences					(261)		(261)
Dividends paid						(1,564)	(1,564)
Loss for period						(732)	(732)
Share based payments				40			40
<b>At 30 September 2006</b>	<b>747</b>	<b>-</b>	<b>4,148</b>	<b>202</b>	<b>49</b>	<b>13,522</b>	<b>18,668</b>
Foreign exchange differences					(85)		(85)
Net actuarial gains recognised directly to equity						1,063	1,063
Deferred tax on actuarial gains						(319)	(319)
Loss for period						(1,887)	(1,887)
Share based payments				36			36
<b>At 31 March 2007</b>	<b>747</b>	<b>-</b>	<b>4,148</b>	<b>238</b>	<b>(36)</b>	<b>12,379</b>	<b>17,476</b>
Foreign exchange differences					(44)		(44)
Dividends paid						(747)	(747)
Loss for period						(1,203)	(1,203)
Share based payments				(219)		237	18
<b>At 30 September 2007</b>	<b>747</b>	<b>-</b>	<b>4,148</b>	<b>19</b>	<b>(80)</b>	<b>10,666</b>	<b>15,500</b>

**CML Microsystems Plc****Notes to the financial statements****1. Segmental Analysis****Primary - Business**

	<b>Unaudited 6 Months End 30/09/07</b>			<b>Unaudited 6 Months End 30/09/06</b>			<b>Audited 12 Months End 31/03/07</b>		
	Equipment	Semi-conductor components	Group	Equipment	Semi-conductor components	Group	Equipment	Semi-conductor components	Group
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Revenue</b>									
Segmental sales	587	7,900	8,487	503	8,957	9,460	1,003	16,765	17,768
<b>(Loss)/Profit</b>									
Segmental operating (loss)/profit	110	(1,097)	(987)	57	(867)	(810)	101	(3,463)	(3,362)
Net financial income/(expense)			(109)			(22)			153
Income tax			(107)			100			591
Loss after taxation			(1,203)			(732)			(2,618)
<b>Assets and Liabilities</b>									
Segmental assets	815	21,908	22,723	804	26,082	26,886	762	23,190	23,952
Unallocated corporate assets			5,709			5,232			5,980
Consolidated total assets			28,432			32,118			29,932
Segmental liabilities	133	2,301	2,434	245	2,633	2,878	158	2,120	2,278
Unallocated corporate liabilities			10,498			10,572			10,178
Consolidated total liabilities			12,932			13,450			12,456
<b>Other segmental information</b>									
Tangible asset additions	-	230	230	-	281	281	-	368	368
Intangible asset additions	34	1,885	1,919	38	2,567	2,605	74	4,630	4,704
Depreciation	8	316	324	8	369	377	17	689	706
Amortisation	32	2,173	2,205	33	1,862	1,895	76	4,713	4,789

**2. Dividend paid and proposed**

Declared and paid during the period

	<b>Unaudited 6 Months End 30/09/07 £'000</b>	<b>Unaudited 6 Months End 30/09/06 £'000</b>	<b>Audited 12 Months End 31/03/07 £'000</b>
Equity dividends paid on 5p ordinary shares			
10.5p per share dividend for year ended 31 March 2006	-	1,564	1,564
5p per share dividend for year ended 31 March 2007	747	-	-

The directors do not recommend the payment of an interim dividend.

**CML Microsystems Plc****Notes to the financial statements - continued****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. Deferred taxation is not reassessed at the interim stage.

	<b>Unaudited 6 Months End 30/09/07 £'000</b>	<b>Unaudited 6 Months End 30/09/06 £'000</b>	<b>Audited 12 Months End 31/03/07 £'000</b>
UK income tax	(144)	-	(358)
Overseas income tax	251	(100)	645
Total current tax	<u>107</u>	<u>(100)</u>	<u>287</u>
Deferred tax	-	-	(878)
Reported income tax charge/(credit)	<u>107</u>	<u>(100)</u>	<u>(591)</u>

**4. Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period and on the following weighted average number of shares in issue:

	Ordinary 5p shares	
	Weighted Average Number	Diluted Number
6 months ended 30 September 2007	14,947,626	14,947,626
6 months ended 30 September 2006	14,919,839	14,919,839
12 months ended 31 March 2007	14,933,733	14,933,733

**5. Retirement benefit obligations**

The directors have not obtained an actuarial report in respect of the defined benefit pension scheme for the purpose of this Half Yearly Report.

**6. Tangible assets – Investment Property**

Investment properties are re-valued at each discreet 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 properties or on leasehold investment properties where the un-expired lease term exceeds 20 years. 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.

Subsequent to the 30 September 2007 the Group's property at Witham, Essex has been placed on the market for sale.

**7. General**

Other than already stated within the Chairman's statement and the operating and financial review there have been no important events during the first six months of the financial year that have impacted this Half Yearly Report.

There have been no related party transactions or changes in related party transactions described in the latest annual report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

## **CML Microsystems Plc**

### **Notes to the financial statements – continued**

#### **7. General – continued**

The principal risks and uncertainties within the business are contained in the operating and financial review on pages 2 and 3 of this Half Yearly Report.

This interim management report includes a fair review of the information required by DTR 4.2.7 (indication of important events and their impact, and description of principal risks and uncertainties for the remaining six months of the financial year).

This Half Yearly Report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. This Half Yearly Report does not include all the information and disclosures required in the Annual Financial Statements, and should be read in conjunction with the consolidated Annual Financial Statements for the year ended 31 March 2007.

The financial information contained in this Half Yearly Report has been prepared using International Financial Reporting Standards as adopted by the European Union. The accounting policies used in preparation of the Half Yearly Report are the same accounting policies set out in the year ended 31 March 2007 financial statements. This Half Yearly Report does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985. The financial information for the year ended 31 March 2007 is based on the statutory accounts for the financial year ended 31 March 2007 that have been filed with the Registrar of Companies and on which the auditors gave an unqualified audit opinion. The auditors report on those accounts did not contain a statement under section 237(2) or (3) of the Companies Act 1985. This Half Yearly Report has not been audited or reviewed by the Group Auditors.

All shareholders will be sent a copy of this Half Yearly Report which can also be obtained from the company’s registered office at Oval Park, Maldon, Essex CM9 6WG, England.

#### **8. Approval of results**

The directors approved this Half Yearly Report on 19 November 2007.

## **CML Microsystems Plc**

### **Advisers**

#### **Stockbrokers**

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#### **Solicitors**

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### **Key Dates**

31 March 2008	Financial year-end
17 June 2008	Anticipated date for release of Preliminary Results for the year end 31 March 2008
7 July 2008	Anticipated date for the publication of the 2008 Annual Report
6 August 2008	2008 Annual General Meeting





## **CML Microsystems Plc**

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