CML Microsystems Plc

Half Yearly Financial Report for the six months ended 30 September 2009

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Chairman's Statement

The unaudited results posted for the six month trading period ended 30 September 2009 reflect a continuation of the weak conditions evident in the group's markets during the opening months, with group sales recording a 13% decline to £7.18m against those for the comparable earlier period (2008: £8.23m).

Reductions in operating costs and other earlier steps to improve efficiencies contributed to a material increase in gross margins and a reduced pre-tax loss for the period.

The loss per share improved to 7.06p (2008: loss per share 11.21p).

The Operating Review that follows this statement provides financial and trading information for the period in further detail.

The Board's objective is to drive medium to long-term shareholder value. It is clear that the markets in which the Group operates have suffered weak trading conditions for some time and there is an obvious lack of demand for the Company's shares.

Alongside this situation, your Board currently sees little benefit in retaining a listing of the Company's shares. The Board is seeking appropriate advice on the matter with the intention of releasing an update in due course.

I believe your Company is taking actions appropriate to countering the trading problems and which will further its aims to return to profit.

As reported at the AGM in August this year, your Board anticipates improved trading results for the full year.

G W Gurry
Chairman

23 November 2009

Operating and Financial Review

Overview

The adverse global market environment that has prevailed over the past 12 to 14 months continued to impact overall Group revenues through the six-month reporting period to 30 September 2009. Lower operating costs as a direct result of cost saving measures helped reduce the impact this had at the operating level; however, revenue growth through the second half of the period failed to reach the levels previously anticipated.

This resulted in the posting of a net trading performance fractionally ahead of the comparable period and below management expectations.

Financial results & Business Summary

Group revenues for the period under review were £7.18m representing a 13% reduction against the prior year comparable (2008: £8.23m). Semiconductor shipments into all major market segments declined although, geographically, the Far East region exhibited the greatest resilience. The sales of Group products into wireless and storage application areas continued to dominate, accounting for approximately 77% of revenues. Total order bookings were slightly behind those for the comparable period.

Gross profit margin improved to 72% (2008: 67%) as a result of lower raw material costs and a reduction in fixed labour charges.

Group operating costs reduced to £6.42m (2008: £6.73m) reflecting improvements undertaken and completed prior to the commencement of the current financial year. Net finance costs amounted to £92k (2008: £197k) and a corresponding loss before tax of £1.1m was recorded (2008: £1.3m).

Cash balances were assisted by a decrease in working capital requirements and an anticipated R&D tax credit that was received in the final weeks of the first half. This coupled with good cash management resulted in a net inflow through the period of £207k.

Summary & Outlook

Revenue performance during the opening six months was disappointing, although actions taken prior to the commencement of the year ensured the Group now operates on a more appropriate cost base and is well positioned to take advantage of improvements in the target markets as they materialise.

Following the period end there has been an improvement in order book visibility from certain 'storage' customers although it is too early to predict if this will translate into a prolonged period of recovery. Through the remainder of the financial year we will continue to focus on achieving sustainable revenue growth through producing class-leading semiconductor products for an increasing number of customers globally.

On behalf of the Board, I would like to thank our dedicated employee base worldwide for their continued best efforts and ongoing commitment to the successful future of the Group.

C A Gurry
Managing Director

23 November 2009

CML Microsystems Plc
Condensed Consolidated Income Statement

Continuing operations	Unaudited 6 months End 30/09/09 £'000	*Unaudited 6 months End 30/09/08 £'000*	Audited Year End 31/03/09 £'000
Revenue	7,181	*8,226*	16,089
Cost of sales	(2,034)	*(2,755)*	(5,887)
Gross Profit	5,147	*5,471*	10,202
Distribution and administration costs	(6,415)	*(6,728)*	(12,466)
	(1,268)	*(1,257)*	(2,264)
Other operating income	281	*208*	489
Loss before share based payments	(987)	*(1,049)*	(1,775)
Share based payments	(52)	*(49)*	(101)
Loss after share based payments	(1,039)	*(1,098)*	(1,876)
Revaluation of investment properties	-	*-*	5
Finance costs	(94)	*(210)*	(333)
Finance income	2	*13*	115
Loss before taxation	(1,131)	*(1,295)*	(2,089)
Income tax (expense)/credit	76	*(380)*	(47)
Loss after taxation attributable to equity holders of the Company	(1,055)	*(1,675)*	(2,136)
Loss per share			
Basic	(7.06)p	*(11.21)p*	(14.29)p
Diluted	(7.06)p	*(11.21)p*	(14.29)p

Condensed Statement of Comprehensive Income

	Unaudited 6 months End 30/09/09 £'000	*Unaudited 6 months End 30/09/08 £'000*	Audited Year End 31/03/09
Loss for the year	(1,055)	*(1,675)*	(2,136)
Other comprehensive income:			
Foreign exchange differences	(188)	*210*	397
Actuarial loss		*-*	(1,671)
Income tax on actuarial loss		*-*	507
Net (loss)/income for the year directly recognised in equity	(188)	*210*	(767)
Total comprehensive income for the period	(1,243)	*(1,465)*	(2,903)

CML Microsystems Plc
Condensed Consolidated Statement of Financial Position

	Unaudited 30 September 2009	Unaudited 30 September 2008	Audited 31 March 2009
	£'000	£'000	£'000
Assets			
Non current assets			
Property, plant and equipment	5,781	6,091	5,931
Investment properties	3,850	415	3,850
Development costs	4,910	5,146	5,192
Goodwill	3,512	3,512	3,512
Deferred tax asset	2,000	1,295	2,019
	20,053	16,459	20,504
Current assets			
Inventories	1,100	1,720	1,366
Trade receivables and prepayments	2,121	2,290	2,504
Current tax assets	98	137	355
Cash and cash equivalents	2,537	1,841	2,192
	5,856	5,988	6,417
Non current assets classified as held for sale - properties	420	3,807	468
Total assets	26,329	26,254	27,389
Liabilities			
Current liabilities			
Bank loans and overdrafts	6,200	5,211	6,062
Trade and other payables	2,078	2,315	2,069
Current tax liabilities	5	24	15
	8,283	7,550	8,146
Non current liabilities			
Deferred tax liabilities	2,453	2,524	2,459
Retirement benefit obligation	1,990	-	1,990
	4,443	2,524	4,449
Total liabilities	12,726	10,074	12,595
Net Assets	**13,603**	**16,180**	**14,794**
Capital and reserves attributable to equity holders of the Company			
Share capital	747	747	747
Share premium	4,148	4,148	4,148
Share based payments reserve	203	99	151
Foreign exchange reserve	255	256	443
Accumulated profits	8,250	10,930	9,305
Shareholders' equity	**13,603**	**16,180**	**14,794**

CML Microsystems Plc
Condensed Consolidated Cash Flow Statement

	Unaudited 6 months End 30/09/09 £'000	***Unaudited 6 months End 30/09/08 £'000***	**Audited Year End 31/03/09 £'000**
Operating activities			
Net loss for the period before income taxes	(1,131)	*(1,295)*	(2,089)
Adjustments for:			
Depreciation	161	*224*	437
Amortisation of development costs	1,792	*1,997*	4,183
Movement in pensions deficit	-	*-*	319
Share based payments	52	*49*	101
Interest expense	94	*210*	333
Interest income	(2)	*(13)*	(115)
Decrease in working capital	657	*263*	132
Cash flows from operating activities	1,623	*1,435*	3,301
Income tax refunded/(paid)	320	*257*	225
Net cash flows from operating activities	1,943	*1,692*	3,526
Investing activities			
Purchase of property, plant and equipment	(22)	*(52)*	(66)
Investment in development costs	(1,563)	*(1,811)*	(3,969)
Disposals of property, plant and equipment	-	*6*	38
Interest income	2	*13*	115
Net cash flows from investing activities	(1,583)	*(1,844)*	(3,882)
Financing activities			
Increase in short term borrowings	138	*136*	987
Interest expense	(94)	*(210)*	(333)
Net cash flows from financing activities	44	*(74)*	654
Increase/(decrease) in cash and cash equivalents	404	*(226)*	298
Movement in cash and cash equivalents:			
At start of year	2,192	*1,891*	1,891
Increase/(decrease) in cash and cash equivalents	404	*(226)*	298
Effects of exchange rate changes	(59)	*176*	3
At end of year	2,537	*1,841*	2,192

CML Microsystems Plc
Condensed Consolidated Statement of Changes in Equity

Unaudited	Share Capital £'000	Share Premium £'000	Share Based Payments £'000	Foreign Exchange Reserve £'000	Accumulated Profits £'000	Total £'000
At 1 April 2008	***747***	***4,148***	***50***	***46***	***12,605***	***17,596***
Loss for period					*(1,675)*	*(1,675)*
Other comprehensive income:						
Foreign Exchange differences				*210*		*210*
	747	*4,148*	*50*	*256*	*10,930*	*16,131*
Share based payments			*49*			*49*
At 30 September 2008	***747***	***4,148***	***99***	***256***	***10,930***	***16,180***
Loss for period					*(461)*	*(461)*
Other comprehensive income:						
Foreign Exchange differences				*187*		*187*
Defined benefit pension scheme					*(1,671)*	*(1,671)*
Tax on defined benefit pension scheme					*507*	*507*
	747	*4,148*	*99*	*443*	*9,305*	*14,742*
Share based payments			*52*			*52*
At 31 March 2009	**747**	**4,148**	**151**	**443**	**9,305**	**14,794**
Loss for period					(1,055)	(1,055)
Other comprehensive income:						
Foreign Exchange differences				(188)		(188)
	747	4,148	151	255	8,250	13,551
Share based payments			52			52
At 30 September 2009	**747**	**4,148**	**203**	**255**	**8,250**	**13,603**

CML Microsystems Plc
Notes to the condensed financial statements

1. Segmental Analysis

Business segments

	Unaudited 6 Months End 30/09/09			*Unaudited 6 Months End 30/09/08*			Audited Year End 31/03/09		
	Equipment	Semi-conductor components	Group	*Equipment*	*Semi-conductor components*	*Group*	Equipment	Semi-conductor components	Group
	£'000	£'000	£'000	*£'000*	*£'000*	*£'000*	£'000	£'000	£'000
Revenue									
By origination	332	11,043	11,375	*479*	*10,678*	*11,157*	979	20,928	21,907
Inter-segmental revenue		(4,194)	(4,194)	*-*	*(2,931)*	*(2,931)*	-	(5,818)	(5,818)
Segmental revenue	332	6,849	7,181	*479*	*7,747*	*8,226*	979	15,110	16,089
(Loss)/Profit									
Segmental result	(34)	(1,005)	(1,039)	*55*	*(1,153)*	*(1,098)*	54	(1,930)	(1,876)
Net financial income/(expense)			(92)			*(197)*			(218)
Revaluation of investment properties			-			*-*			5
Income tax			76			*(380)*			(47)
Loss after taxation			(1,055)			*(1,675)*			(2,136)
Assets and Liabilities									
Segmental assets	606	19,355	19,961	*731*	*19,869*	*20,600*	686	20,012	20,698
Unallocated corporate assets									
Investment property (Including held for sale)			4,270			*4,222*			4,317
Deferred taxation			2,000			*1,295*			2,019
Current tax receivable			98			*137*			355
Consolidated total assets			26,329			*26,254*			27,389
Segmental liabilities	76	2,002	2,078	*115*	*2,200*	*2,315*	51	2,018	2,069
Unallocated corporate liabilities									
Deferred taxation			2,453			*2,524*			2,459
Current tax liability			5			*24*			15
Bank loans and overdrafts			6,200			*5,211*			6,062
Retirement benefit obligation			1,990			*-*			1,990
Consolidated total liabilities			12,726			*10,074*			12,595
Other segmental information									
Property, plant and equipment additions	-	22	22	*30*	*22*	*52*	30	36	66
Development cost additions	1,527	36	1,563	*35*	*1,776*	*1,811*	74	3,895	3,969
Depreciation	157	4	161	*9*	*215*	*224*	16	421	437
Amortisation	1,760	32	1,792	*31*	*1,966*	*1,997*	73	4,110	4,183

1. Segmental Analysis (continued)

Geographical Segments

	UK £'000	Germany £'000	Americas £'000	Far East £'000	Total £'000
Unaudited					
6 month end 30 September 2009					
Revenue by origination	4,760	2,448	1,340	2,827	11,375
Inter-segmental revenue	(2,032)	(2,157)	-	(5)	(4,194)
Revenue to third parties	2,728	291	1,340	2,822	7,181
Property, plant and equipment additions	18	4	-	-	22
Development cost additions	855	708	-	-	1,563
Total assets	19,293	3,810	1,503	1,723	26,329
Unaudited					
6 month end 30 September 2008					
Revenue by origination	*4,343*	*1,773*	*2,580*	*2,461*	*11,157*
Inter-segmental revenue	*(1,173)*	*(1,515)*	*(243)*	*-*	*(2,931)*
Revenue to third parties	*3,170*	*258*	*2,337*	*2,461*	*8,226*
Property, plant and equipment additions	*35*	*12*	*4*	*1*	*52*
Development cost additions	*1,172*	*639*	*-*	*-*	*1,811*
Total assets	*19,441*	*3,520*	*1,790*	*1,503*	*26,254*
Audited					
Year ended 31 March 2009					
Revenue by origination	9,043	3,427	4,569	4,868	21,907
Inter-segmental revenue	(2,521)	(2,794)	(503)	-	(5,818)
Revenue to third parties	6,522	633	4,066	4,868	16,089
Property, plant and equipment additions	36	22	4	4	66
Development cost additions	2,366	1,603	-	-	3,969
Total assets	20,280	3,883	1,713	1,513	27,389

Reported segments and their results in accordance with IFRS 8, is based on internal management reporting information that is regularly reviewed by the chief operating decision maker. The measurement policies the Group uses for segmental reporting under IFRS 8 are the same as those used in its financial statements. No comparative figures needed restating to comply with the fact that IFRS 8 needed to be applied retrospectively.
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

No dividend has been paid or proposed in the 6 months period end 30 September 2008, 30 September 2009 or the year end 31 March 2009.

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 6 Months End 30/09/09 £'000	***Unaudited 6 Months End 30/09/08 £'000***	**Audited Year End 31/03/09 £'000**
UK income tax	(125)	*(175)*	(305)
Overseas income tax	49	*161*	114
Total current tax credit	(76)	*(14)*	(191)
Deferred tax	-	*394*	238
Reported income tax (credit)/charge	(76)	*380*	47

4. Loss per share

The calculation of basic and diluted 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
6 months end 30 September 2009	14,947,626	14,947,626
6 months end 30 September 2008	*14,947,626*	*14,947,626*
Year end 31 March 2009	14,947,626	14,947,626

5. Investment Properties

Investment properties are revalued at each discrete period end by the directors and every third year by independent Chartered Surveyors on an 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. At the 31 March 2009 the investment properties were professionally valued by Everett Newlyn, Chartered Surveyors and Commercial Property Consultants on an open market basis.

6. Analysis of cash flow movement in net debt

	Net debt at 01/04/08	6m pe 30/09/08 Cash Flow	Net debt at 30/09/08	6m pe 31/03/09 Cash Flow	Net debt at 31/03/09	6m pe 30/09/09 Cash Flow	Net debt at 30/09/09
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and Cash equivalents	1,891	(50)	1,841	351	2,192	345	2,537
Bank loans and overdrafts	(5,075)	(136)	(5,211)	(851)	(6,062)	(138)	(6,200)
	(3,184)	(186)	(3,370)	(500)	(3,870)	207	(3,663)

The cash flow above is a combination of the actual cash flow and the exchange movement.

7. 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.

8. Principal risks and uncertainties

Key risks of a financial nature

The principal risks and uncertainties facing the Group are with foreign currencies and customer dependency. With the majority of the Group's earnings being linked to the US Dollar a decline in this currency will have a direct effect on revenue, although since the majority of the cost of sales are also linked to the US Dollar, this risk is reduced at the gross profit line. Additionally, though the Group has a very diverse customer base in certain market segments, key customers can represent a significant amount of revenue. Key customer relationships are closely monitored, however changes in buying patterns of a key customer could have an adverse effect on the Group's performance.

Key risks of a non-financial nature

The Group is a small player operating in a highly competitive global market, which is undergoing continual and geographical change. The Group's ability to respond to many competitive factors including, but not limited to pricing, technological innovations, product quality, customer service, manufacturing capabilities and employment of qualified personnel will be key in the achievement of its objectives, but its ultimate success will depend on the demand for its customers' products since the Group is a component supplier. A substantial proportion of the Group's revenue and earnings are derived from outside the UK and so the Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws, terrorist activities, natural disasters or health epidemics.

9. Directors' statement pursuant to the Disclosure and Transparency Rules

The directors confirm that, to the best of their knowledge:

a. the condensed financial statements, prepared in accordance with IFRS as adopted by the EU give a true and fair view of the assets, liabilities, financial position and loss of the company and the undertakings included in the consolidation taken as a whole; and

b. the condensed set of financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”; and

c. the Chairman's Statement and Operating and Financial Review includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The directors are also responsible for the maintenance and integrity of the CML Microsystems Plc website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

10. Significant accounting policies

The accounting policies used in preparation of the Half Yearly Financial Report are the same accounting policies set out in the year ended 31 March 2009 financial statements except for the adoption of:

IAS 1 Presentation of Financial Statements (Revised 2007) and IFRS 8 Operating Segments

The adoption of IAS 1 (Revised 2007) makes certain changes to the format and titles of the primary statements and to the presentation of some items within these statements. IAS 1 affects the presentation of shareholder changes in equity and introduces “Consolidated statement of comprehensive income”. In accordance with the new standard the entity does not present a “Statement of recognised income and expense”, as was presented in the 31 March 2009 financial statements. Further, a Consolidated statement of changes in equity” is now presented as a primary statement. The adoption of IFRS 8 has not affected the identified operating segments for the Group.

11. 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.

The principal risks and uncertainties within the business are contained within this report in note 8 above.

In the Segmental Analysis (note 1 on page 7) 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.

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 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 2009.

The financial information contained in this Half Yearly Report has been prepared using International Financial Reporting Standards as adopted by the European Union. This Half Yearly Report does not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. The financial information for the year ended 31 March 2009 is based on the statutory accounts for the financial year ended 31 March 2009 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 498(2) or (3) of the Companies Act 2006. This Half Yearly Report has not been audited or reviewed by the Group Auditors.

A copy of this Half Yearly Report can be viewed on the company website http://www.cmlmicroplc.com.

12. Approval

The directors approved this Half Yearly Report on 23 November 2009.

CML Microsystems Plc

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